the
Freeman
Ideas on Liberty

JUNE 1983

LEONARD E. READ

September 26, 1898—May 14, 1983

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LEONARD E. READ

1898—1983

With deep regret, we note the passing of our founder and president, Leonard E. Read.

Born in rural Michigan, Leonard returned there after service in World War I to open a wholesale produce business.

In 1925 he moved with his wife and two sons to California and soon became active in chamber of commerce work, serving as manager of the Western Division and later as General Manager of the Los Angeles Chamber for six years.

In 1945 Leonard came to New York as Executive Secretary of the National Industrial Conference Board. His dream, however, was of an independent organization to stand uncompromisingly for freedom. The Foundation for Economic Education is the result.

His lifelong devotion to human freedom amounted to an obsession. He sought a better understanding of freedom and worked to expound it with ever greater clarity and persuasiveness. The methodology he stressed was based on self-improvement—let each person work on himself and present society with one improved unit.

The Foundation for Economic Education was born out of Leonard's original vision. It attests to the integrity and passion with which he served that vision; it is the monument by which he will be remembered—and that's the way he would want it. Leonard stood tall, and FEE is his lengthened shadow.

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The Stranglehold of "Big Business" **Charles Dykes** **323**
The large business enterprise, for all its faults, is vital in the defense of liberty.

Primitivism: The Thrust of Government Intervention **Clarence B. Carson** **328**
The intrusion of government into market activities leads back toward the primitive life.

The Academy versus the Market Place **John Hospers** **339**
Concerning the reasons for the antipathy of the academic profession toward the free market.

Unemployment in Puerto Rico **Hans F. Sennholz** **358**
A classic instance of the harmful consequences of good but misguided intentions.

Abundance and Scarcity **Ben Barker** **369**
An examination of opposing views about the nature and distribution of wealth.

Book Reviews: **377**
"At the Eye of the Storm: James Watt and the Environmentalists" by Ron Arnold
"USSR: The Corrupt Society" by Konstantin M. Simis
"Development Without Aid: Growth, Poverty and Government" by Melvyn B. Krauss
"Privatizing the Public Sector: How to Shrink Government" by E. S. Savas

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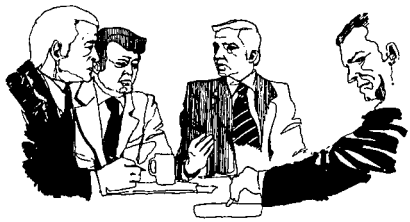
Charles Dykes

The Stranglehold of "Big Business"



A "corporation" was originally a form of organization granted by sovereigns in the Middle Ages to such entities as local governments and trade groups in order to facilitate the regulation of legal monopolies and the collection of taxes. Coming down to our own day, there are a tremendous number of "non-business" corporations; in the public mind, however, "corporation" and "business enterprise" are practically synonymous. And, despite the demonstrable fact that there are vastly more small corporate business enterprises than large ones, "corporation" and "Big Business" are frequently equated.[1]

In the early nineteenth century there were many Americans who regarded the business corporation with its grant of powers and ability to accumulate vast amounts of capital as a danger to the free society. Advocates of a small-holders agrarian society, following the lead of Thomas Jefferson, had an intense dislike for commercial corporations because of their tendency to grow into large aggregations of economic wealth. Not surprisingly there were relatively few corporations at that time.

Later, Thorstein Veblen declared the corporation to be primarily a device contrived by absentee owners in order to promote monopoly in their own interests. In the latter half of the twentieth century such influential men as John Kenneth Galbraith have told the world that the American economy is dominated by a handful of giant corporations. It is said that the managers of these commercial behemoths exercise enormous power over the civil gov-

Mr. Dykes is a businessman, free-lance writer and enthusiastic advocate of the free market.

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ernment that is supposed to regulate them.

Galbraith maintains that this ruling elite—the managerial class, or what he calls the "technostructure"—manipulates consumer demand at will. He suggests, moreover, that American society is dominated by about 500 of these corporate business enterprises. As he sees it, these colossuses are freely able to "administer" prices and "maximize" profits even as they are manipulating consumer demand through advertising, which is sometimes termed "thought-control" by antibusiness elites.[2]

What about this? Concerning the charge that giant business corporations exercise vast powers over the civil government, let us start by noting that in the early 1970s there were about 1.6 million profit-seeking corporations in the United States, while the total number of business concerns was around 5.1 million. The corporate sector as a whole accounted for only about half of the U.S. economy in 1974, which was about the same share it had in 1940.

Contrary to Galbraith, who claimed the 500 largest corporations produce close to half of all goods and services, the actual figure is around 25 per cent. The 500 largest employ less than 25 per cent of the labor force, and own only about 28 per cent of the nation's tangible wealth, strangely enough about what they owned in 1929. Of course the list of corporations composing the 500 largest is not static, and has changed many times over the years.

Crucial Questions

Regarding the claim that "Big Business" dominates American politics by lobbying and campaign contributions, several crucial questions need to be asked. For instance, if the large corporations are so powerful politically, why were they impotent to stem the flood-tide of environmental and consumerist legislation of the 1970s—e.g., the OHSA and EEO Acts? The overwhelming majority of corporate giants opposed this legislation and yet they passed anyway. Further, it is a fact, capable of exact demonstration, that public policy for over 40 years, but especially since 1960, has been increasingly hostile to business. If the corporate leviathans are as powerful as men like Professor Galbraith allege, is it possible that government regulation would be all-pervasive as it is today, or that the tide of antibusiness sentiment throughout the land would be so virulent?

What about "thought control," "the management of demand"—i.e., advertising—the supposed ability of "Big Business" to manipulate the consumer at will? It is enough to point out that it is relatively easy to teach people to want things; teaching people not to want things is quite

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another matter. All the noonday brightness of Madison Avenue genius would be powerless to persuade the mass of people to exchange their color television sets for black and white, or give up their cars and return to walking and public transportation.

There is no question that some sectors of the economy are dominated by a small number of giant corporations. According to scholarly investigations of the matter, concentration in manufacturing has centered in six industries of extremely high capital intensity in which enterprises of large scale are essential to realize economies of scale. Around 50 of the 100 largest corporations in the U.S. today are in automotive, oil refining, steel, nonferrous metals, industrial chemicals, and aircraft. What do they have in common? These industries are also the industries of highest concentration in the other industrialized nations of the world. This indicates they have common problems and that common causal factors underlie their development.

We would not pretend that giant business corporations as organizations are always exemplars of the spirit of liberty and personal initiative. As Michael Novak observes, "executives and workers in very large corporations necessarily encounter problems of morale, spirit, and efficiency quite unlike those present in small pioneering firms. Bureaucratic thinking may afflict them."[3] Despite this tendency, corporate titans have played and continue to play an important role in the preservation of liberty.

We live, after all, in an age which is witnessing the rampant growth of state power. "Government in America has become an industry, greater, more dynamic, wealthier, and more expansionary than ever the capitalism of the Harrimans and Rockefellers was in its nineteenth-century heyday."[4]

A Protective Barrier

The large business corporation stands, among other mediating structures, as a powerful barrier between the individual and the omnipotent ambitions of the messianic political state. "Were the state to acquire control over the large corporations, the political system would thoroughly dominate the economic system. The likely result would be a productive capacity run at about the efficiency of the U.S. Postal Service. The most destructive would be the diminishment of liberty."[5]

What future has "Big Business" in America? As David M. Smick has pointed out, "the Fortune 500 have experienced virtually no net job growth for more than a decade. The newest research shows instead that nearly all new jobs are coming from firms with precisely the opposite

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characteristics."[6] Smick goes on to observe that these firms "are not only small, but minuscule. Nearly 70% of new jobs come from firms with 20 or fewer employees."

And just as corporate giants are not providing new jobs for the American work force, neither are they providing many new innovations in technology. Most new developments in an industry are launched commercially by small firms. The indispensable role played by industry giants is to rationalize and mobilize the breakthroughs of inventive genius and entrepreneurial vision and to create economies of scale together with efficient channels of distribution which bring the fruits of innovation and vision to consumers in quality form at affordable prices.

Mediating Structures

However much some of us may lament the bureaucratic tendencies of large business corporations, however frequently it may be necessary to counter the myth of their dominance of the American economic order, still, it is crucial that their vital role as efficient producers of economic goods and services be appreciated and defended. But even more important is their position as mediating structures between the individual and the state. And unlike the state, whose decrees are enforced by its police powers, the large business corporation has no power to make anybody work for it, invest in it, or buy its products.

Whereas the state forces us to subscribe to its services whether we want to or not, the giant corporations—and all other business enterprises large or small—cannot make consumers buy their products if they don't meet their needs or the price is too high. No matter how wasteful or destructive government bureaucracies may be, they tend to grow ever larger and more mischievous. Business enterprises, on the other hand, that do not produce products or services which consumers need at prices they can afford, go bankrupt, or are taken over by better managers, with the result often being a radical reorganization.

In this context, where the freedom to succeed or fail is very real, some business enterprises are not only successful in surviving, but emerge as the leaders of their industry. Thus the competition that breeds excellence not only provides many of the necessities of life and other good things at affordable prices to ordinary men and women, but a mediating structure is established which can serve as one more barrier between the liberty of the person and the coercive bureaucratic state which would limit that precious liberty.

The hostility of most politicians and government bureaucrats to the free market in general, and to "Big

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Business" in particular, is well known. This is in many ways a strange and disturbing phenomenon. Walter Berns illustrated powerfully the irony of this attitude several years ago: "I put it to you that we shall never see President Carter—or any other president of the United States—embrace and indeed plant a kiss on the cheek of the chief executive officer of a major oil company, even though we have already seen him embrace and kiss the chief executive officer of what is now the greatest tyranny on the face of the earth. Secretary Vance has said that Mr. Carter and Mr. Brezhnev 'share the same dreams and aspirations'; he would never be so impolitic as to say that of Mr. Carter and the president of Exxon Corporation, even though in this case it is probably true."

In defending "Big Business" against its enemies, it is not required that we approve of all its activities, or admire the actions and life styles of all its representatives. Many times we may find these reprehensible. It is imperative, however, that we understand and make clear to others that the stranglehold of "Big Business" is a myth; and that, indeed, the large business enterprise, whether consciously or unconsciously, occupies a strategic place in the defense of liberty.

—FOOTNOTES—

[1]Robert Hessen, *In Defense of the Corporation* (Stanford, Calif.: Hoover Institution Press, 1979).

[2]*The New Industrial State* (Boston: Houghton Mifflin, 1967).

[3]*The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982), p. 235.

[4]William Bentley Ball, "Mediating Structures and Constitutional Liberty," *Worldview* (September 1978), p. 41.

[5]Novak, p. 178.

[6]"What Reaganomics is All About," *The Wall Street Journal* (July 8, 1981).

IDEAS ON LIBERTY

Business Statesmanship

EVERY experienced analyst knows that, unless current transactions build up permanent capital in the form of good will, they are consummated at too heavy a cost.

Business leaders should instruct those at the merchandising fringe that no sale is worth-while unless it builds a friendly attitude toward the company. Otherwise, the immediate profit is made at the unreasonable cost of dissipating long-term, intangible corporate assets in the form of public esteem and good will.

MERRYLE STANLEY RUKEYSER, "The Crusade Against Excellence"

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Clarence B. Carson

PRIMITIVISM: The Thrust of Government Intervention

It sometimes sheds light on a subject to examine the end toward which a course of action tends. This line of reasoning has often been dismissed as a *reductio ad absurdum*. It is possible, of course, to arrive at all sorts of absurdities by the reduction and extension of acts to the ends toward which they may tend, considered in a vacuum. We might, for example, conclude that taking a drink of water is damaging because it tends to use up the supply of fresh water. This absurd conclusion is arrived at, however, by ignoring the fact that the supply of fresh water is being continually replenished.

But there is nothing at all absurd in reasoning from the tendency of acts to the possible or probable conclusion if they are continued and multiplied, if the qualifying conditions are duly noted. Indeed, far from being a device for arriving at an absurd conclusion, the legitimate use of *reductio ad absurdum* is "the refutation of a proposition by demonstrating the absurd conclusion to which it would inevitably lead when logically developed," as one dictionary says.

At any rate, it is my intention in what follows to explore the tendency of the results produced by government intervention on the market. As for the thrust of intervention itself, it has several tendencies. One of these is in the direction of government oppression and tyranny. While this tendency may not be generally

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Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America.* He is working at present on A Basic History of the United States to be published by Western Goals, Inc.

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known or accepted, it has been often alluded to and much analysis and evidence has been assembled to prove it.

It has been shown, too, that the tendency of interventions is to hamper and restrain dealings in the market. Indeed, often this is not so much a tendency as the immediate result of given interventions. For example, an increase in the minimum wage may result in immediate unemployment for marginal workers. There has been much exploration of the impact of various sorts of interventions, an impact closely tied to the nature of the intervention. For example, price controls that set prices below the market level result in shortages; those that set them above the market result in surpluses.

An Intolerable Burden

What I wish to explore here is a much broader, more general, and a longer range result of government intervention. I want to deal with a possible or probable general result of long term and mounting government intervention in the market. The tendency of government intervention in the market is to hamper market operations. To put it another way, intervention *burdens* activity in the market, makes it more difficult or costly to use the market. When that burden becomes sufficiently great, people will, if they can, begin to abandon the market. More precisely, they will operate outside the legal market and may well reduce greatly if they do not cease entirely their dependence upon the market.

In short, a sufficient level of intervention in the market could result in a reversion to primitive modes of providing goods and services. This is not simply a logical conclusion or one arrived at by an exercise of the imagination, but rather developments along this line have occurred in the past and are going on in the United States today, as I intend to show. Before doing so, however, there are some other points to be made.

Perhaps, one of the points can at least be suggested this way. Jesus said, "The sabbath was made for man, and not man for the sabbath." With equal validity, it can be said: Government was made for man, and not man for the government. Or, to tie this saying even more closely to the present topic: The market was made for man, and not man for the market. The context within which Jesus made the observation brings it into focus. He was walking with His disciples through a grain field on the sabbath day. The disciples began to pick some of the grain to eat. The Pharisees accused them of violating the laws for the sabbath. To which, Jesus replied with the above quoted observation, among others.

Institutions, organizations, and

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even observances take on a life of their own sometimes. They become perverted from their end of serving man to having men serve them. Governments are especially prone to this abuse and to turning any institutions which fall under their power to their own ends. That has happened in large measure to the market in the United States (and in many other countries), and it is a point which will be elaborated below.

What I would emphasize at this stage of the discussion is that, where choice is possible, men may take the opportunity to override the institutional fetters. That, I take it, is what the disciples of Jesus did on the above occasion. That, too, is a possibility that is on its way to becoming a probability in the case of the increasingly fettered market.

The Blessings of Trade

There are two ways that man can provide in an economic manner for his wants. One is to produce the goods himself. That is, he can grow the crops to provide himself with food and fiber, gather the materials and build himself a shelter, and construct clothes by his own labor. In short, he might somehow manage to provide himself with the necessities and amenities of life by his own direct efforts. This is a primitive way of providing goods and services. It is necessarily so, for anyone who would attempt to do it would be limited to such tools as he could construct, to such materials as were in the immediate vicinity or near to him, and to such skills as he could develop within his life span. In these circumstances, even the most industrious and ingenious would be bereft of many, indeed, virtually all, of the conveniences to which we are accustomed.

The other way to provide for our wants is by way of the market. That is, we may acquire the goods to meet our wants by trading our surplus produce in the market for them. The process is sufficiently familiar that little elaboration of its workings may be necessary. Yet its very familiarity may dull our awareness of the array of goods and services available through it and the complexity of the arrangements by which they come to us. We go to the market not only for butter, eggs, bread, gasoline, shirts, and cars but also for physicians, dentists, teachers, preachers, carpenters, electricity, banking, air transport, and the thousands of goods and services we may want.

The market makes possible the specialization of labor, the division of labor, the concentration of capital, the availability of goods from diverse climes and regions, and most of the paraphernalia which makes possible the many goods and services we enjoy. It comprises all the means ever devised or that ever will be devised

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for making trades. It cannot be outmoded, for every new means for facilitating trade is only grist for its mills. Its advantages over each person's producing to meet all his wants by his own direct efforts are patent, and in a free and open contest the market tends to carry the day.

Qualifying Conditions

Some qualifications and exceptions to the above should be noted:

First, personal production for one's wants and reliance upon the market are not mutually exclusive categories. It is possible both to produce for oneself and for the market, and to buy some of what is wanted while producing the remainder. Indeed, many, perhaps most, services are provided in the home by the family. Some people have vegetable gardens in which they grow some of the food they consume but go to the market for the rest. The primary reliance may be on the market, supplemented by home production, and so on. The categories were described in absolute terms and at poles apart so that a tendency toward one or the other could be determined.

Second, it should be noted that goods can be acquired by the use of force or theft. Since that method of acquisition is diseconomic, when not illegal, it has been left out of consideration.

Third, it is unlikely that most people will ever cease to provide some goods for themselves directly or that the market will be entirely abandoned. Within that framework, however, great, even massive, shifts can and do occur.

The Oppressive Burden Taxes Impose on the Market

Be that as it may, the thrust of intervention by government is placing an increasing burden on the market. Probably, the most oppressive burden on the market is by taxes on goods bought and sold in the market. It has not been generally understood that taxes can be a burden on the market, though awareness of this appears to be increasing. It has long been understood, of course, that taxes, any and all taxes, have an impact on an economy. So they do, and unavoidably so; they affect the way in which people can employ their resources and the extent of those resources available to them. But that is not the point to be emphasized here.

Instead, the point is that taxes collected in the market or based on market activities are a burden on the market. They are a burden on the market because they can be evaded or avoided by not using the market. Virtually all Federal taxes today are a burden on the market. They are a government intervention in the market when they are collected in the market and a burden on it however they may be collected. A large

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portion of Federal taxes are collected in the market.

All personal income taxes withheld by an employer are collected in the market. (The buying and selling of labor is a market operation, and this is a tax upon it.) So, too, are all Social Security taxes withheld by an employer. Excise taxes, such as those on tires, telephones, liquor, cigarettes, and so on, are collected in the market. Corporate income taxes, to the extent that they are passed on to the consumer, are ultimately collected in the market in the price of goods. So, also, are the portions of Social Security taxes paid by the employer, as well as such taxes as those for unemployment compensation.

All these are burdens on the market because they enter into and become a part of the prices we pay for goods in the market. This is so even in the cases of some excises, where the tax may be separately listed, for it is still necessary to pay the full price to get the good. It should be noted, too, that a recently enacted law, not yet in effect, would extend this practice of market collection to interest and dividend income.

The Federal taxes not collected in the market are based on market activities. Corporate income taxes are not directly collected in the market (though they may be ultimately collected from the consumer) but they are almost entirely based on market activities. So are the income taxes and Social Security paid by the self-employed. That is, these are based on income derived from trade. They are a burden on the market, at the least, in that they are a cost of trading in the market imposed by government.

State and Local Taxes

Many state and local taxes are also a burden on the market. State income taxes are usually collected in much the same way as are Federal taxes. Sales taxes are, in effect, a part of the price of goods on which they are levied. So are the various "hidden" taxes, by whatever level of government they are imposed. Business licenses and other taxes may not be levied directly on the market, but they are, as a cost of doing business, ordinarily paid for by the consumer and are a burden on the market.

By contrast with Federal taxes, however, some state and local taxes are not a burden on the market. They are neither collected in the market usually or as a rule nor are they based on market activities. The most important of these taxes is the property tax. It is true that the amount of the tax may be calculated by reference to selling prices in the market. But that must be accounted incidental, since the tax is levied without regard to any market transaction or activity. (Real estate

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transfer taxes, recording fees, and the like, are, of course, burdens on the market.) Licenses, such as marriage licenses, driver's licenses, license plates for vehicles, hunting licenses, and others paid for by individuals in their private capacities, are not a burden on the market generally.

But it is not my intention to list and categorize the whole vast array of taxes imposed in the United States. It is only necessary to mention enough of them to suggest the immensity of them and how and in what ways they constitute a burden on the market. Although the amount of his income which goes to taxes varies from individual to individual, estimates suggest that on the average it may now amount to something on the order of 35 to 40 per cent. As much as 75 per cent of that can almost certainly be classified as a burden of doing business in the market.

Counting the Costs

Since most of these taxes end up in the prices that we pay for goods and services, it is feasible to conclude that the price we pay for these is inflated by as much as 25 per cent by the tax burden on them. But whatever the figure might turn out to be, if it could be precisely calculated, it is undoubtedly large and costly. In addition to the taxes themselves, there are the clerical and other costs of paperwork to keep the records necessary to collect and pay the taxes. So far as this is done by businesses, these costs are passed on to the consumer, too, where possible.

Potentially, the most devastating of taxes has not yet been discussed. It is taxing by inflation—the increase of the money supply. The market provides the arena within which inflation could or would occur. (This is neither a fault nor a defect of the market. It is of the same order with the statement that without life there would not be death.) That is, money, as a medium of exchange, has its whole use and value in the market. Without the market, there would be no purpose in increasing the money supply. The market could exist without money, though it would be a primitive market, but it is most unlikely that money would exist without the market.

Money facilitates exchanges in the market. Inflation is a tax on all market transactions made for currency. As the inflation mounts, the value of the money depreciates. Trading becomes an increasingly precarious undertaking; to trade other goods for a money declining in value becomes increasingly risky. Inflation, then, is a burden on the market, and if it becomes headlong, an intolerable burden. Inflation is most commonly the result of government intervention in the market by increasing the money supply to raise money to meet its deficits.

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There are numerous interventions whose burdens on the market are difficult, when not impossible, to calculate. How, for example, can the impact of zoning restrictions be determined? There is no way to know how many purveyors of goods have been kept out of the market. And what of such government monopolies as that of collecting and delivering first class mail? Not only does this keep people out of the business who would like to compete but also it denies to customers the services they might perform at better prices.

Hampering Regulations

Government price setting tends to drive the price of many commodities, such as milk, butter, cheese, electricity, tobacco, and so on well above what they might otherwise be. Government safety regulations covering all sorts of things from working conditions to automobiles to drugs to the packing and preservations of meat add to the cost of providing all these goods. The difficulties, and hence the cost, of building, have been greatly increased by all the environmental protection regulations. James J. Hill pushed the Northern Pacific Railroad through the Rockies in little more time than it would take nowadays to get the approval from all the government agencies to build a railroad station. In short, there are tens of thousands of government regulations which hamper the market in numerous ways at virtually incalculable cost to all who trade in the market.

But in no area does government intervention hamper the market with more devastating results than in that of employment. Intervention has gone on so long there and now reaches in so many directions that the buyers and sellers of labor, in many instances, can no longer be served in the market. The market cannot be cleared of either demand or supply. Many job openings go unfilled while many millions are unemployed. The work force has been drastically reduced over the years (in the proportion of the total population working) on the one hand; yet, on the other, many who would work cannot find acceptable employment. These remarks cover not only the situation at the current time but also long-term conditions.

Price Controls on Labor

The most basic government intervention in the labor market has been in price. Alterations and fluctuations in price are the most basic means for clearing the market for labor, as for other goods. The government has long since instituted downward price inflexibility by the minimum wage for most occupations. This inflexibility occurs at a considerably higher level in most government and union jobs. Moreover, the inflexibility extends to a

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whole range of wages and salaries (where there are established scales) in most government and union covered jobs. This downward inflexibility prices many people out of the market. It is a major cause of unemployment, both that which appears in government statistics and much that does not.

But government intervention in the labor market goes much beyond price controls. There are also regulations about hours of work, prohibitions against child labor, encouragement of early retirement, compulsory school attendance laws, numerous subsidies to keep people off the labor market ranging from unemployment compensation to the food stamp program to grants and loans for attending schools and colleges, and all sorts of safety and job regulations which make the way of employers hard.

There are fringe benefits which tend to make labor much more expensive than it would otherwise be, such as retirement programs, medical and life insurance, and so on. These are usually not mandated by government, though many of them have been acquired by unions, all of whom operate under government auspices, but the fringe benefits are often granted to employees as pay increases not subject to taxes. Nonetheless they add to the cost of labor.

Government intervention not only makes it difficult to find employment but also contributes to the shortage of workers of the particular skills and abilities that are wanted. All programs which keep people off the market tend to do that. In addition, government sponsors training, much of which may have little or nothing to do with job opportunities. But also some of the government interventions tend to foster inflexibility, intractableness, and refusal of employees to accommodate themselves to the work the employer provides. That has been the tendency of minority hiring prescriptions, legal prescriptions as to what is and is not a part of the job, and, in general, a government or union hardnosed attitude toward employers. Such attitudes and behavior burden the market by making it difficult to provide goods and services that may be wanted.

Avoiding the Market

Government intervention, then, tends to burden the market. As it mounts and spreads, it increases the cost and reduces the attraction of trading in the market. The thrust of government intervention is to set the stage for people to find ways to survive outside the framework of the legal market. When the burden becomes too great people may seek to avoid the legal market entirely. By so doing, they revert to more primitive means of satisfying their wants.

There have been indications for

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several years now that people were considering and taking steps to reduce their dependence on the legal market and avoid dealing in it where they could. Undoubtedly, there are various motivations at work. Some are attempting to avoid or evade paying taxes. Some are trying to survive when they cannot find employment in the legal market. Others may be drawn to a simpler and more basic way of living. Still others may be ideologically motivated or justified, harbor an animosity toward the market itself, and wish to avoid an arena dominated by capitalists, as they see it. There are people who are so antigovernment that they want as little as possible to do with the legal market. My concern is not primarily with the specific motivations but with the phenomenon of withdrawing from the legal market and its relation to the burden placed upon the market by government intervention.

Dealing in Cash

Three categories of activities for avoiding the penalties and burden of the legal market have emerged and assumed some importance thus far. One is to deal in cash or other means of transferring funds without keeping records. The IRS claims that several hundreds of billions of dollars earned in this way largely may be eluding the taxgatherers. Be that as it may, newspaper and other reports indicate that there is a goodly amount of this done. It probably occurs mainly in payments for labor and services, though other goods may be transferred this way so long as the transfer does not have to be recorded.

There is nothing illegal about dealing in cash or other negotiable instruments, *per se*. Nor are such trades anything other than normal market activities on their face. They become evasions of the legal market, however, when some law is violated in connection with them. If the person receiving such income does not report it for tax purposes, he is failing to comply with the law. In like manner, if an employer pays in that manner to avoid paying the minimum wage, withholding taxes, or Social Security, he would not be in compliance with the law. How widespread such practices are is a matter of conjecture, but the IRS, at least, claims they are occurring on a large scale and that much money is involved.

Barter

A second activity is the revival of bartering. Again, labor and services appear to be mainly what is traded. Thus, a lawyer may trade a legal service to an orthodontist for work on his children's teeth or an electrician may trade with a carpenter, and so on. Organizations have even been formed to facilitate such exchanges

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in some communities. Again, these are market activities, albeit rather crude or primitive ones, and there is nothing illegal about them.

However, the attraction in this sort of activity must surely be increased by the fact that collecting taxes on the transactions is difficult, to say the least. It comes so close to performing services for yourself, which is not taxable, that it seems a quibble to argue that it could even be taxed. Presumably, no money has changed hands, and no prices translated into money have been named. I decline further comment on this activity, however, for I neither desire to be guilty of encouraging tax evasion nor to add any arguments to the arsenal of those of the tax-gatherers.

The other activity comprises a whole range of undertakings, all of which would presumably reduce or eliminate some dependence on the market. They range from home-gardening to the revival of arts and crafts to solar heating and cooling to sewing to whatever may be done in the home or on the land to provide for the wants of a person or family. Many of these are fairly commonplace ideas; others are quite exotic.

Do-It-Yourself Activities

Over the past decade a considerable literature has been developed describing and promoting these do-it-yourself activities. Magazines, such as the popular *Mother Earth* publication, are regularly devoted to exchanges of information and descriptions of these things. A goodly number of books have been published on such topics as how to produce all your food on two acres of land. There are undoubtedly other values to these activities, but so far as they are economically feasible they result in avoiding at least some of the burden that has now been laid on the market.

It is possible to lay such burdens on the market that people either will not or cannot meet their wants in the market. It is possible to destroy the currency by inflation so that trades can no longer be practically effected with the official money. It is possible to lay such a burden of taxes on the market that people will refuse to operate within it. It is possible to regulate productive activity to the extent that very little can or will be produced for it. It is possible, by so doing, to leave people with only primitive and crude means for providing for themselves. Some or all of these things have happened in the course of history, at various times and places.

The Soviet Union was reduced to primitive economic conditions between 1918–1921. Some of the destruction could be attributed to the civil war, but most of it can be placed on the actions of the Bolshevik rulers. The money supply was virtually

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destroyed by inflation. The assault upon property and upon activities in the market did the rest. As a result, in 1921 industrial production was only about 13 per cent of what it had been before World War I, and agricultural production had declined precipitately. The population of the cities was decimated. Leningrad had a population of nearly 2½ million in 1916; by 1920 it had fallen to just over 700,000. Large numbers of people had left the cities in order to survive by providing for themselves in more primitive ways. Many other examples could be given, but perhaps the point has been made.

Clogging the Channels of Communication and Trade

The market was made for man, and not man for the market. It was made to facilitate his trades, to enrich his life, by producing what he can most effectively, by specialization, by the division of labor, by disposing of his surplus in return for the produce of others. It was not made as an instrument for government. It was not made for the collection of taxes, for the imposition of taxes, or as a device to serve the value system of those who govern by regulation and restriction. It is a perversion of the market to burden it so greatly with taxes and restrictions that man is serving the government through the market in addition to or rather than simply providing for his wants.

Government, too, was made for man, and not man for government. It is a perversion of government when its impositions become so heavy that man is serving government rather than being served by it. When those impositions are imposed on and through the market, an invaluable lifeline—the market—is being transformed into a club.

Men take what measures they can to avoid the club, even if it means giving up the advantages of the market. That way lies more primitive means of providing for our wants. The thrust of government intervention in the market is in that direction.

IDEAS ON LIBERTY

John W. Burgess

THIS CLAIM [against non-involvement] rests upon the very serious error that world intercourse and world interchange of the elements of civilization require *political* interference and intermeddling. This is not only false, but it is so false as to be highly mischievous and harmful. Outside of this lies the whole free realm of trade, commerce, science, literature, art and social relations, things which bring all parts of the world together in friendly and helpful interchange, while political intermeddling almost always provokes hatred, enmity and war.

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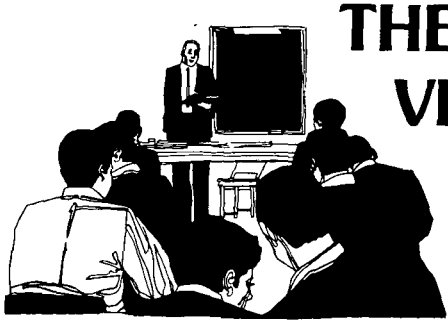
John Hospers



THE ACADEMY VERSUS THE MARKET PLACE

Workers and the Market

THAT the majority of the workers of America have no appreciation of the operation of the free market is not perhaps very surprising. It is true that compared with workers of every previous century they are astonishingly well off, and that their comparative affluence today is in direct proportion to the freedom with which the market is permitted to operate.

Workers today are all beneficiaries of a system which they barely know exists and which they understand not at all. Yet without its operation, with its marvelous self-correcting system of production and distribution, they would have barely enough to keep body and soul together, as has been the case with workers throughout history—or else they would long since have been dead from disease or starvation, which again was true until the 19th century when the average life-span rose for the first time above 25.

Because creativity and invention was permitted to flourish, and property rights were respected, tools and machines rather than human muscles came to do most of the work. Never until the past century has the general population, even in the most advanced nations, been able to have any leisure or to live in reasonably comfortable houses and apartments. Were it not for the freedom to produce, to profit from the production, to create and tap a mass market, none of these benefits would be possible.

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But most people don't connect their present comparative affluence with the operation of the market. They don't see the complex chains of causes and effects that make them the beneficiaries of the machine's productivity. They are like people who have become so accustomed to having electric power that they don't even think of it. Since it has worked so well, and never needed repair, people have forgotten where the underground conduits are, or how to repair the system if it should fail. Its silent efficiency has led them to take it for granted.

What impresses most people is not how good their lot is compared with workers in previous times (this they have never seen and know nothing about), but rather that some of the people today are better off than they are. They see their employer making more money than they do themselves; what they don't see are the risks he takes, the skill required to keep the factory humming and the ingenuity required in predicting future markets. They only see that he has more than they do, and they are filled with *envy*.

This tendency to envy others is, of course, played on to the hilt by government propaganda. The government needs a scapegoat, to divert attention from its own failures; and what more convenient scapegoat is there than the man of ability and independence who expands his plant, provides jobs, and makes profits? Such men are a thorn in the flesh to the state, so the state makes them the villains, thus diverting public attention from the true villain, the state itself. When the government succeeds in this, the people vote to take the successful man's wealth away from him, and his incentive to produce along with it. In some countries the envy goes so far that workers kidnap plant managers and burn factories, even if it means that they themselves thereby become unemployed.

Businessmen and the Market

Many businessmen are quite conscious of the values of the free market. Only when it operates can they produce, sell, exchange the products of their labor, and distribute these products efficiently. Many of them have started from scratch and become millionaires; others have started and gone bankrupt, either from bad luck or bad management. But they are society's risk-takers, and millions of them each year, given the opportunity, are willing to take the risk.

Yet the business community has been far from conspicuous in its defense of the free market.

(1) It isn't just that businessmen are a minority, easily outvoted at the polls—though many of them know what policies will lead to prosperity—but the majority of voters, hos-

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tile and envious, vote to put a further ball and chain around them with new taxation and regulation.

(2) It isn't just that they are inarticulate in defense of the market, though this is also true; to keep one's business going takes all one's time and effort, and to them their enterprise doesn't need defending.

(3) Nor is it simply that they're scared, though in today's climate they have every reason to be. If they speak out against the government, the EPA or OSHA or the other agencies that regulate them, these organizations bring the coercive machinery of the law down on them, slapping them with huge fines or closing them down.

The main reason, however, is that many businessmen themselves have sold out to the opposition. The self-made man takes many risks, and may struggle for years before he succeeds; but if he can cash in on the government largesse, taking money earned by other taxpayers to use for his own enterprise, he lessens those risks. So he succumbs to a policy of legalized plunder. Other businessmen, disapproving such practices, see him gaining by his dishonesty; after all they are paying taxes part of which go to keep *his* enterprise going at *their* expense; so if they can't lick him they join him, and lobby for special favors along with those they recently condemned for doing the same thing. Once men are permitted by law to stand at the public trough to receive favors, the practice spreads until almost everyone is corrupted; and those who refuse to be corrupted either go under or work at a tremendous disadvantage.

Educators and the Market

The sins of workers and businessmen against the free market system that made their affluence possible are those of omission; those of the educators are sins of commission. They are neither fearful nor indifferent; they are, in general, active enemies of the free market and the system of unimpeded supply and demand called capitalism.

So prevalent is the antimarket mentality among academicians that the results often approach the grotesque. Any young Ph.D. (at least in the humanities) who is a political conservative or libertarian must hide his views from his prospective employers, else he will fail to get the job. And if perchance he was appointed before his views were discovered, the promotions committee of the college or university that employs him is likely to deny him tenure; until that time, he must keep silent about his views. Enthusiasm for a candidate, no matter how intense, quickly palls when the candidate expresses the view that the size of the federal government (particularly the educational establishment) should be curtailed. Indeed, a large percentage of college professors seem

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to be socialists who wear $500 suits, smoke $100 briar pipes, and rail at capitalism as the source of the evils of the world.

Some even go so far as to recommend the forcible overthrow of capitalism. "The continued existence of capitalism," writes Prof. Kai Neilsen, "does cause, and will continue to cause, as long as it is allowed to exist, extensive misery and human degradation. . .".[1] The replacement of capitalism by socialism is "a necessary condition for the attainment of a just society. . . There is not to be a mixed economy with a private sector and a public sector; the means of production must be publicly owned." But since capitalists will never voluntarily give up their power over the people they exploit, the only way of bringing about the desired transformation is to initiate armed revolution against the capitalist regime.

A Multitude of Defenses Against Critics of Capitalism

There is an abundance of well-known arguments to refute all of these allegations. That capitalism causes poverty would be a bad joke if it were not taken so seriously by people who ought to know better. The reverse is true: the mass of mankind can escape living on the edge of starvation only to the extent that free enterprise is permitted to flourish: indeed, it is likely that but for the existence of capitalism Professor Neilsen would himself have been one of the millions of casualties of poverty.

Moreover, what kind of "power" do capitalists have? Not the power of the gun, or the power of arrest and trial: only the power to offer goods on the market hoping that enough customers will buy their products or services to make the enterprise worth-while. And how could he sell to them if they were, thanks to his "exploitation," too poverty-stricken to buy? The whole thing is a hopeless tissue of falsehoods and confusions, such as the same teachers would not permit of their own undergraduates in any other area of knowledge.

The vast majority of educators totally misunderstand the nature and functioning of the market. In their hatred of all businessmen (whom they hate far more than they hate even a repressive government, as long as it doesn't repress *them*), they fail to distinguish between businessmen who against long odds make it on their own and those who plunder the government (i.e., the taxpayer) and succeed only through legalized theft. All are lumped together as scheming rascals, by the educators who enjoy the fruits of those men's labors. "I want a car; Jones can produce a car; why then should I try to use government to impede Jones' ability to sell me a car at a competitive price?" I once asked a

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fellow professor that question, but received no coherent answer.

They consider men like the Rockefellers to be the epitome of capitalism. Perhaps in his early years John D. was, but his successors certainly are not; their main activity is devoted to retaining the *political* privilege of remaining relatively tax-free (let the peasants pay the taxes) and (in some cases) the privilege of creating money out of nothing as members of the Federal Reserve. In a genuinely free market, Rockefeller's sons would have had to "shape up or ship out"; their stars would have declined as those of younger and more imaginative businessmen rose. But by tapping the political pipeline, they retained what they would otherwise never have achieved, a continuation of vast wealth which they themselves did nothing to earn and little (at least on the free market) to retain.

Envious Professors

Arousing the academician's particular hatred is *profits*. Professors in general consider themselves to be the ablest and most enlightened of human beings; as the elite *they* should receive the most money, whereas in this corrupt society leaders of businesses and corporations get much more. They are envious and resentful; and possessing much more verbal agility than the businessmen they loathe, they can set forth their views in books and essays which their opponents, busy with their own work, never endeavor to refute.

The result is that the business community gets an extremely bad press, to which it gives very little by way of rational response. That if a company is to remain affluent most of its profits have to be plowed back into the company, creating more products and more jobs, is never mentioned or presumably thought of by the academic critics of business.

One of the most telling cases for the market and against government is William Simon's memorable chapter on the fiscal history of New York City in his book *A Time for Truth*. There has been a profusion of books extolling the virtues of the free market, but in general academicians do not read them and do not even tell their classes of their existence. If students find out about them, they must do it on their own. Those academicians of my acquaintance who do know the story of New York City's bankruptcy have never made any serious criticism of it.

That for political reasons the city government affords huge perquisites to its own employees (retirement at 80% pay after 20 years for policemen and college professors, for example), thus taxing private enterprise beyond endurance and forcing one business after another out of the city, has gone virtually uncriticized by academicians (perhaps because

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they are in on the take). The money that went to these municipal employees was badly needed for rebuilding roads, subways, and bridges; no less than $30 billion, it is estimated, is needed in the next decade simply to keep New York's transport in adequate repair, which cannot be done because the money has gone to overpaid city employees and retirees. One would think that this would be an occasion for moral indignation; but no such indignation is forthcoming on this subject from the academic establishment.

Egalitarianism

The avenue through which most academicians succeed with their students in attacking the free market is not as often a direct frontal attack ("The market is evil") as a defense of something that is incompatible with it, economic *egalitarianism*. Indeed, the vast majority of writers on ethics appear to be egalitarians. They usually make some allowances for "special cases," such as increased benefits to the sick and handicapped, and even an increase of income to some "to provide incentives" (one wonders how they know who is going to be creative or industrious), but for the rest they believe that every person (or every family) should have an *equal income*. Some are aware, though others are not, of the totalitarian implications of such a system: that the government would have to keep tabs on everyone's income and force everyone who earned more than X dollars per year to surrender everything earned in excess of that amount to the government, and to pay to those who have less (minus the government's own quite considerable "handling fee," which in some cases exceeds 50 per cent).

One of the most distinguished ethical thinkers, R.M. Hare of Oxford University, admits that "removal of incentives to effort may diminish the total stock of goods to be divided up"[2] and thus recommends that those who start new productive enterprises should receive a bit more from the common pot. But the main assumption, that there *is* a common pot from which government officials may take from some to give to others, is never questioned—apparently it has never occurred to the author. Yet it is this economic collectivism which passes without criticism by one writer after another.

"It is morally obscene," wrote Ayn Rand, "to regard wealth as an anonymous tribal product and to talk about 'redistributing' it. The view that wealth is the result of some undifferentiated collective process—that we all did something and it's impossible to tell who did what, therefore some sort of equalitarian 'distribution' is necessary—might have been appropriate in a primordial jungle with a savage horde moving boulders by physical labor

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(though even there someone had to initiate and organize the moving). To hold that view in an industrial society—where individual achievements are a matter of public record—is so crass an evasion that even to give it the benefit of the doubt is an obscenity. Anyone who has ever been an employer or an employee or has observed men working, or has done an honest day's work himself knows the crucial role of ability, of intelligence, of a focused, competent mind—in any and all lines of work, from the lowest to the highest. He knows that ability or lack of it . . . makes a difference of life or death in any productive process. The evidence is so overwhelming . . .—in the events of history and in anyone's own daily grind—that no one can claim ignorance of it. Mistakes of this size are not made innocently. When great industrialists made fortunes on a *free* market (i.e. without the use of force, without government assistance or interference) they *created* new wealth; they did not take it from those who had *not* created it. If you doubt it, take a look at the 'total social product'—and the standard of living—of those countries where such men are not permitted to exist."[3]

Variations on Egalitarianism

One of the most influential American writers on ethics, Professor Richard Brandt, believes that everyone's real income after taxes "should be equal, except for (a) supplements to meet special needs, (b) supplements recompensing services to the extent needed to provide desirable incentive and allocative resources efficiently, and (c) variations to achieve other socially desirable ends such as population control."[4] The amount required to provide "incentives" turns out not to be very much, however; apparently producers of products and services are expected to keep on taking risks, expending hours of effort, and producing whether or not they stand to gain anything by doing so. Again there is the collectivistic assumption that it is not the individual who earned the money who has the right to keep it, but the government, which did not produce it, which has the right to take it from him and distribute it at its pleasure.

The catastrophic effect of this policy on production is not so much as hinted at. The only thing that apparently worries the author is that his utilitarian theory has as its goal a life of equal *happiness* for everyone, not necessarily of *money* (two people with the same income won't necessarily be equally happy). But, he says, we don't know how to allocate equal happiness to everyone; the best we can do is allocate money: "Money is something we can easily hand out in equal amounts. . . . More important, however, is the fact that we are apt to maximize happiness if

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what we allocate is money."[5] That we have no right to "allocate" to Smith the money that was earned by Jones, any more than we have the right to give Smith's television set to Jones if we have reason to believe that Jones (who doesn't own it) will enjoy it more than Smith (who does), is a point that is never brought up. The obedient note-taking student is expected not to bring it up either.

Professor Nicholas Rescher, in his books *Welfare* and *Distributive Justice,* is somewhat more flexible about the government distribution of money. First, he suggests, a "utility floor" is needed, a level of income below which no person or family should be permitted to go regardless of the type of work the breadwinner does, or indeed whether he chooses to do any work at all.

Having said that, however, he adds that income should have something to do with desert—that a person who works hard or does a kind of job not duplicated by anyone else should be provided (by the government) some more income than the average, so as to keep his enterprise going. Thus, a convicted murderer who has served his sentence should still receive the minimum stipend (the "floor"), but no more than that because his actions have shown that he does not deserve more. The government thus becomes the arbiter and determiner of what each person deserves—an awesome responsibility indeed when added to the enormous enforcement duties that government already has, and already does at minimum efficiency and maximum cost.

In the end, according to Rescher, the following factors merit consideration: people should be treated "(1) as equals (except possibly in the case of certain 'negative' distributions such as punishments); (b) according to their needs; (c) according to their ability or merit or achievements; (d) according to their efforts and sacrifices; (e) according to their actual productive contribution; (f) according to the requirements of the common good, or the public interest, or the welfare of mankind, or the greater good of a greater number; (g) according to a valuation of their socially useful services in terms of their scarcity in the essentially economic terms of supply and demand."[6]

A Tremendous Calculation

How even an army of bureaucrats armed with computers could determine each person's deserved income by such a formula (and how much weight each of these factors should receive in the final determination of one's income) is a matter so complex as to boggle the mind.

Production *is* important, says Rescher. In order for goods to be distributed, they first must be produced. This was once a problem, he says, because (for example) few persons

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who wanted cars could have them. But today, owing to mass production, almost every family has one. "The problem of just distribution is less urgent," he says, "for an abundant good, and simply *does not arise* with a genuinely superabundant good."[7]

But *how does it happen* that consumer goods are superabundant in the United States and still so scarce in totalitarian countries that one has to stand in line for hours to get them, and so scarce as to be virtually nonexistent in some Third World countries? What is it that has brought about this superabundance? The vital importance of the operation of the free market in the countries with superabundance is never so much as hinted at.

Much more vague is the formula "Everyone (every person? every family?) should receive an equal income *unless* there is some special reason to make it unequal." This is a widely accepted maxim in Academia. As it stands, it seems innocent enough: one special reason (or the only one) might be, that one person has earned more than another on the free market. But this is not in general an academically accepted reason. No, the acceptable reasons would be, for example, that one person or family is in greater *need* (for whatever reason—whether through misfortune or from spendthrift habits apparently makes no difference); or that one person had worked more hours per day than another; or that one couple decided to have more children than another couple did. Market considerations have little place in such theories of academicians. Yet it is only the operation of the market that can create the wealth that they want government to distribute.

A Consumer's Point of View

The point of view is uniformly that of those who are to *receive,* not those who have to *produce* what others will receive. It is tacitly assumed that production will go on, no matter what the conditions; that producers will continue to produce, no matter how much is taken away from them, no matter how they are regulated; as willing pawns they will continue to produce without a murmur and that it will be left to the "humanitarian" distributors to determine who shall receive what.

Nor is there any conception in all this of the enormity of the coercive government machinery that would be required to sustain such equality of income: the waste, the graft, the corruption (getting your friends on the payroll, staying on welfare or disability long after you don't need it any longer, etc.). All this is ignored or accepted without question. It's just one of those "practical problems" for omnipotent bureaucrats to solve that should never be permitted

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to stand in the way of government's income-distribution policies.

It is no wonder that Academia is not particularly anti-Soviet: the Soviet model appeals to them immensely, and not only because teachers are paid more than doctors in the U.S.S.R. The system may have gone wrong in certain details, to be sure: Stalin was a bit of a tyrant and things shouldn't go that far (Hitler, whose total slaughter was less than a tenth of Stalin's, is still considered the arch-villain, 40 years after his deeds are done), but the model itself is not objected to. That is why the academic community is embarrassed at the revelations of Solzhenitsyn, and would prefer that he just keep quiet—Academia is, in fact, giving him the silent treatment, hoping that students will never actually read what he has to say about the Soviet system.

The Nature of the Antipathy

Those who are in the physical sciences are as a rule less enraptured with various kinds of socialist utopias than those who are in the humanities. Training in the "hard sciences" requires one to work with facts of reality that cannot be changed through wishful thinking or personal feelings. "The literary or humanistic intellectual, by contrast, lacks the ballast of empirical verification for his hypotheses . . . If he empathizes with the sufferings of men under the yoke of the market system, he forthwith visualizes a social system in which these sufferings will be removed."[8] With no check on his fantasies, he dreams of a society in which all people are somehow in a state of blissful harmony with one another, and blames capitalism for whatever evils he may find.

If students had been required to work their way through school, or at least spend summers in their fathers' business enterprises to see how capitalism actually works in practice, they would have been forced to face reality in another way. "This experience had an important value; it reinforced contact with reality and provided a counterweight against tendencies to social fantasy. The Marxist or Marcusean phrases about work and workingmen ring hollow to those who have worked side by side with them. But the students, now a highly favored stratum, are liberally subsidized and their experience is much more wholly university-centered. Thus, the paradox: at the very time when university students call for a greater involvement with society, they are more isolated from it in an everyday, work-a-day sense than they ever have been in the United States. Together with the direction of their generational revolt, university culture reinforces the anti-capitalist mentality."[9]

It has seldom been the workers under capitalism who have demon-

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strated against the capitalistic economy, and then only when they have been barraged by socialist propaganda from upper-middle-class intellectuals. Workers, particularly those who came from non-capitalist countries, have always been anxious to rise in their trade and change their status (e.g., to foreman and then to manager), which capitalism above all other systems gives them an opportunity to do. It has been the intellectuals, usually the sons and daughters of the affluent, who have been the instigators of foment and revolution against capitalism. They were the students whose parents have profited so much from the capitalistic system that they, the students, took it all for granted and used its benefits as a platform for trying to extirpate it.

"We have seen the highly educated German nation give its allegiance to the most murderously vengeful government in history," wrote Eric Hoffer. "The bloody-minded professors in the Kremlin, as Churchill called them, liquidated 60 million Russian men, women, and children. We have also seen a band of graduates of the Sorbonne, no less, slaughter and starve millions of innocents in Cambodia and Vietnam. The murder weapons that may destroy our society are being forged in the work factories of our foremost universities. In many countries, universities have become the chief recruiting ground of mindless terrorists".[10]

An Illustrative Example

Several years ago I was asked to address a philosophical conference which by coincidence was being held that year in my home state of Iowa. The main session of the conference consisted of a comparative survey of various minor Marxist thinkers of the U.S.S.R., Poland, and Yugoslavia; all of their views were treated with great deference, the underlying Marxism of them all was never questioned, and the right of the State to own and operate all productive enterprises was taken for granted. As I sat there I could not help wondering: if only the farmers and businessmen and workers who pay taxes to support the state university knew what their taxes were being used to sustain—the undermining and eventual destruction of the economic system which enabled them to be free and prosperous, yes, even prosperous enough to support the state university.

Outside the windows of the auditorium, which was at the edge of town, one could see well-kept houses and yards, and behind these, rolling hills and fields of corn and grain waving brightly in the sunlight. I thought of the pioneers who came from every country in Europe a century or more ago and cleared the forests, built the houses and towns, and

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cultivated this rich land—and of how these pioneers would have fared if they had been engaged in agriculture in the Soviet Union instead. And the word that kept hammering through my head was "Traitors! traitors!"—addressed, of course, not to the farmers and merchants but to the academicians whose livelihoods were made possible by the labor of these very same farmers and merchants.

That evening I gave an invited address to the Society, in which I took pains to emphasize economic freedom and its close connection with other freedoms. Most of the assembled academicians thought of me not so much as a radical but as a reactionary, a paid hireling of the capitalist exploiters. But though I had completely alienated them, I had the opposite effect on various home-town friends and relatives who had come to hear me, and who then applauded ideas so obviously behind the times.

My relatives were all of Dutch stock whose ancestors had come to Iowa from Holland in the 1840s, when the State Church of Holland led them to seek freedom in the New World. They applauded, not because they were particularly aware of the hostility of the professors, certainly not because they felt threatened by them, but because I was giving voice to the kind of view they had always held but for the most part had never consciously articulated in words; most of them probably felt that the views I was expressing were too obviously true to need reiteration. "It's all true, and well enough said," my uncle said to me afterwards, "but does a person need to go to the university to learn that?" I assured him that I hadn't learned it in any university, but had absorbed it through my pores during all the years of childhood and growing up, thanks in part to him. He assured me that no thanks were due him, for something so plain and obvious. "No thanks," he said, but I was remembering the years of work and planning which had enabled him to establish a new industry in the town, one that he founded and developed through four decades until today it employs over 1,500 people. "No thanks," I thought, "for what you have taught me by the conduct of your whole life?"

Whither America?

I left that meeting with very mixed feelings. I had alienated, perhaps forever, the group I had come to address, but had won the respect of the quite different group whose members I hadn't even suspected would bother to come. For them it had been largely a matter of "finding out whether the home town boy had finally made good." It may be, I thought, that in the future the influence of the first group (Academia) will win out and no longer permit the existence of the second group

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(independent farmers and businessmen), and the first group will determine (with the iron fist of the commissar) the course of the lives of the second group, deciding on their work, their income, their education, their profession, leaving them with few responsibilities and decisions not imposed by the State. Perhaps the descendants of the courageous emigrants will be made to labor for the State, or if they dissent will be summarily shot or sent to an American Gulag, and that will be the end of the America that was once the hope of the world. I determined at that moment to work for a free America as if my life and the lives of other Americans depended on it—which indeed they do.

Causes of the Antipathy

As a rule, the wealthier a country becomes, the more its systems of higher education expand, and the more intellectuals become trained in those systems. These men believe they have a worth far greater than the producers on whose bounty they depend. The businessman, in their view, makes far too much money although he is obviously less intelligent, well read, and civilized than the man who spends his life in the ivory tower.

So the intellectual makes others believe that the entrepreneur gets his money by luck, or exploitation, or dishonesty. He also envies the producer of things that yield wealth, and he expresses this envy in cynicism about the whole enterprise of money-making. Besides, the intellectuals are as a group the camp-followers of power, and they tend to identify in their imagination not with the producers of wealth but with the government bureaucrats who get it by force and threat of force from producers and distribute it to others—including to the intellectuals themselves.

Why are the intellectuals as a group almost always the most strongly pro-State of any segment of the population? One would think that they would be strong champions of individual liberty, as indeed they are in one matter, the freedom to teach what and how they please.

The question may seem less troublesome if one reads a book (published in 1908) by the German sociologist Franz Oppenheimer, *The State*. Oppenheimer begins with an apparently obvious distinction. There are, he says, two ways of obtaining the things one needs and wants in this world. The first method is production and exchange—producing something out of nature's raw materials and transforming it so that it can be used by man, and exchanging this product of one's labor with the products of the labor of others (the free market). This method of survival, production and exchange, he called the *economic* means. But there

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is also another means: not to produce anything at all that others need or want, but simply to seize by force the things that others have produced—the method of plunder. This he called the *political* means.

Not everyone, of course, can use the second means: you cannot seize anything from others that others have not already created or produced. But some people can do it, siphoning off the fruits of others' labor for themselves. In the end, the supply is destroyed if this method is used too extensively, since the second method adds nothing to the totality of production but only subtracts from it; the more that's used up by the predator, the more must be created by others to replenish the supply, and of course the systematic plunder of the goods that someone has produced considerably reduces his motivation for producing any more.

The Political Means

Now the State, said Oppenheimer, is *the organization of the political means*. It is the systematic use of the predatory process over a given territory. Crimes committed by individuals, such as murder and theft, are sporadic and uncertain in their outcome; the victims may even resist and win. But the State provides a legal, orderly, systematic channel for the seizure of the fruits of other men's labor. Typically a conquering tribe settles among the conquered as rulers exacting an annual tribute; this provides peace in place of war, and increases the probability that the tribute will continue to flow in.

Still, the problem remains how the king, or tribal chieftain, or emperor, or council of rulers, can continue to get by with this use of naked force against the rest of the population. One way to manage it is for the king to have a group of other men (the nobility of the realm) to whom he grants special privileges in return for his will being done. He makes it worth their while for them to serve him. He gives them land grants, makes them feudal lords, lets them throw their weight around, gives them great power over the masses, including, of course, the power to tax. They like the wealth and power that this position gives them, and have no incentive to change the system. Many nations still have this hereditary nobility based on original grants from a monarch or chieftain.

But if this were all, we would have a monarch and a class of nobles, with a highly discontented population. The upper classes would be in constant danger because the rest of the population are more numerous than they are, and there would always be a considerable chance of open rebellion. If peace is to be maintained, the masses have to be kept content with their lot. They must somehow be convinced that they are the gainers by the system: that they are

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getting back more than they're giving, that they are being protected by the system and that the protection is worth more than the taxes and regulation they have to endure from it.

Teaching Obedience

How is this goal achieved? *A morality* must be inculcated that justifies in the eyes of the majority the power of the State. People must really believe that their lot is better now, that Caesar is good and wise, that the State really is their servant and not their master, and also of course that it would go badly for them if they tried to rebel. At one time, when church and State were one, the inculcation of this morality was the business of the ecclesiastical authorities. In that way, they could tie the precepts of obedience to Caesar to the eternal welfare of the subjects, and obedience became a virtue rewarded, if not now, at least in the hereafter.

But the principal way in which the State keeps people in line today, even supporting its activities voluntarily, is through a system of *universal public education*. Such education proceeds with every trapping of objectivity and tolerance, but its effect is to cause the recipients of the "education" to grant entirely too much in the way of State power. How many students ever learn that there are practical alternatives to government operation of the post office, the roads, education, and other essential services? How many students ever read, or learn of, books which describe how such services can be operated privately? It is not to the interest of those in charge to publicize alternatives to the system of which they are a part.

Added Pressures

By the time students reach colleges and universities, their minds have already been strongly disposed in a pro-State direction, and their teachers too have been sustained by "the system." Lest any educator step out of line, the State makes institutions of higher learning more dependent on it through research grants and countless subsidies, so that the teacher who opposes the State in any fundamental way finds that he cannot exist within the system: he gets no grants (which are controlled by the State or by private foundations whose heads are also powers behind the government), and sometimes he is fired by deans or superintendents who are afraid to jeopardize the source of their income.

With the State holding the purse-strings, whenever it plays the tune the educators dance and their students memorize the tune. And thus in the course of time the population as a whole comes to believe that interference by the State is essential in virtually every sector of their lives.

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Even when the government becomes a democracy, the people usually vote for legislators who will increase the State's benefits to them, and with it, inevitably, the State's power over them.

The State cannot sustain this power without conferring some benefits: it has a police force and an army whose official reason for existing is to protect them, which indeed it sometimes does. But, to amass more votes, it also institutes vast schemes of welfare, including housing and medical care, so that people will think they must be grateful to the benevolent State for its many benefits.

The State, of course, doesn't tell them that these benefits are dearly bought: that because of inefficiency and corruption it costs more than twice as much for the State to confer the benefits as it would cost insurance companies and other private organizations. It doesn't tell people that they are gradually trading their liberty for security—or the illusion of security, since there is no security other than making one's own plans for the future and being sure that the State will not confiscate the fruits of one's labor. It doesn't remind people that the governmental handling fee for its services is very high, and that the money the unsuspecting citizen has put into the scheme (e.g., social security) has already been spent, and the system relies for its continued operation on the future taxing powers of the State.

I don't propose to argue that Oppenheimer's account of the origin of the State is correct—though surely in most cases, governments have indeed been formed through violence and conquest. Nor do I wish to argue that the State has no useful function at all—for I believe it does (e.g., courts and national defense). All I want to illustrate is that Oppenheimer's account goes far to explain why, in one country after another and in one age after another, the educational system serves the interests of the State rather than those of the people it is supposed to serve.

Avoiding Competition

Many teachers would not do well in the market place, and being tied to State power gives them position, dignity, an importance and income which they would not otherwise have had. Since they get a better deal from the State than they would in the market place, they naturally want to hold on to the special privileges they have obtained, and they gladly pay the required price: to praise the State, to try to tie the well-being of their subjects to the State, and most important of all, to attack the State's favorite scapegoat, the businessman, as the source of evil, exploitation, and power-lust, thus diverting the blame for economic woes from the State itself.

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As the plot of Ayn Rand's *Atlas Shrugged* progresses, the government bureaucrats take over the management of the American economy, and the producers must either work for the government or be put out of business by government regulation and taxation. But the director of economic planning, Wesley Mouch, is worried about whether the public will take it, particularly the principal molders of public opinion, the teachers and the intellectuals. He says,

"Still, I'm worried. The intellectuals are our friends. We don't want to lose them. They can make an awful lot of trouble."

"They won't," said Fred Kinnan. "Your kind of intellectuals are the first to scream when it's safe—and the first to shut their traps at the first sign of danger. They spend years spitting at the man who feeds them—and they lick the hand of the man who slaps their drooling faces. Didn't they deliver every country of Europe, one after another, to committees of goons, just like this one here? Didn't they scream their heads off to shut out every burglar alarm and to break every padlock open for the goons? Have you heard a peep out of them since? Didn't they scream that they were the friends of labor? Do you hear them raising their voices about the chain gangs, the slave camps, the fourteen-hour workday and the mortality from scurvy in the People's States of Europe? No, but you do hear them telling the whip-beaten wretches that starvation is prosperity, that slavery is freedom, that torture chambers are brother-love and that if the wretches don't understand it, then it's their own fault that they suffer, and it's the mangled corpses in the jail cellars who're to blame for all their troubles, not the benevolent leaders! Intellectuals? You might have to worry about any other breed of men, but not about the modern intellectuals: they'll swallow anything. I don't feel so safe about the lousiest wharf rat in the longshoremen's union: he's liable to remember suddenly that he is a man—and then I won't be able to keep him in line. But the intellectuals? That's the one thing they've forgotten long ago. I guess it's the one thing that all their education was aimed to make them forget. Do anything you please to the intellectuals. They'll take it."

"For once," said Dr. Ferris, "I agree with Dr. Kinnan. I agree with his facts, if not with his feelings. You don't have to worry about the intellectuals, Wesley. Just put a few of them on the government payroll and send them out to preach precisely the sort of thing Mr. Kinnan mentioned: that the blame rests on the victims. Give them moderately comfortable salaries and extremely loud titles—and they'll do a better job for you than whole squads of enforcement officers."[11]

The True Reactionaries

Most members of America's academic community don't have to dirty hands in the market place or put up with day-to-day harassment from OSHA or the EPA or the ICC or other paid government harassers. Besides teaching, one of their principal activities is competing for government grants—in which activity they soon learn to include certain phrases in

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their applications which experience has shown will incline the granters favorably toward their application, phrases like "creative research" and "furthering genuinely humanitarian interests." They do not, of course, like to be controlled themselves in what they say in the classroom, but they seldom express a similar interest when others are controlled.

As a group they are constantly looking for more opportunities to loot the federal treasury, and the fact that their proposed research is foolish or pointless (when it is) or that it will mean that the common man, whose interests they claim to have at heart, will have to pay just a bit more taxes or work that much harder to make ends meet, because of these government grants, does not even occur to them, or if it does, it appears not to bother them in the least.

Yet these men and women, who pride themselves on being the first to seize upon new ideas, are the real reactionaries of our culture. With monotonous regularity they have looked to the Old World for their political inspiration—to Plato, to Marx, even to Lenin and Stalin and Mao. But the *planned society*—planned of course by the *state*—is as old as history. The planned society has been tried a thousand and a thousand times; and always it has been tried in the balance and found wanting. Meanwhile the real world revolution had taken place in their own United States—the revolution of 1776, the revolution of individual liberty and productivity made it possible for them to rise up against the sources of their bounty.

"My attachment to these United States," wrote Rose Wilder Lane, "is the revolution, the real world revolution, which men began here and which has—so to speak—a foothold on earth here. If reactionaries succeed in destroying the revolutionary structure of social and political human life here, I care no more about this continent than about any other. If I lived long enough I would find and join the revival of the revolution wherever it might be in Africa or Asia or Europe, the Arctic or Antarctic. And let this country go with all the other regimes that collectivism has wrecked and eliminated since history began."[12]

Aristotle wrote at the beginning of his *Politics* that politics—the art of statecraft—is the most important of human enterprises, since it is upon it that the success of all the others depends. I am often reminded of Aristotle's observation when students and other young people tell me about their plans for the future. One student wants to start a chain of little theaters, in spite of the compulsory city licenses which restrict their number and thus increase the rental on each of them, diminishing their chances of success, as well as the insidious inflation which prevents

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many people from being able to pay admission price. Another has great plans to harness a new and inexpensive type of energy; he outlines these plans with infectious enthusiasm.

A group of students wants to start a pro-freedom private university: they have the tract of land already selected and some progress made on its purchase—it will be hard sledding at first but in a decade or two they believe it will prosper. And I think: yes, fine, *provided* that the power of the *state* by that time is still limited enough so that it permits these enterprises to exist and to succeed. It all depends on that. If the government refuses you a license, or clobbers you with taxes, or strangles you with bureaucratic regulations enforced by people who have very little knowledge even of what they are enforcing, or if it inflates the currency and bankrupts you, or gets so big that it kills all private enterprise and undertakes to manage everything itself, then all these fine plans will go down the drain.

It is said that young people today are confused, pessimistic, alienated, goalless, because they can find no cause worth working for. But there is such a cause—the restoration of liberty by limiting the ever-encroaching power of the *state* over our lives. On the success of this effort depends the future of our nation. Surely there is no cause more worthy of our efforts. To sustain liberty is to sustain the principal condition of any kind of life itself, that can be called distinctively human.

—FOOTNOTES—

[1]Kai Nielsen, "On Justifying Revolution," *Philosophy and Phenomenological Research*, Vol. 37 (June 1977), pp. 516–532.

[2]R. M. Hare, "Justice and Equality," in James Sterba (ed.), *Justice: Alternative Approaches* (Wadsworth Publishing Co., 1980).

[3]Ayn Rand, "What Is Capitalism?" in *Capitalism the Unknown Ideal* (New American Library, 1967), p. 30.

[4]Richard Brandt, *A Theory of the Good and the Right* (Oxford University Press, 1979), p. 310.

[5]*Ibid.*, p. 133.

[6]Nicholas Rescher, *Distributive Justice* (Bobbs-Merrill, 1966), p. 73.

[7]*Ibid.*, p. 90.

[8]Louis Feuer, "Some Irrational Sources of Opposition to the Market System," in Ernest van den Haag (ed.), *Capitalism: Sources of Hostility* (Epoch Books, 1979), p. 132. See also Benjamin Rogge, *Can Capitalism Survive?* and Herbert Spencer, *The Man versus the State*. (1884; reprinted by Liberty Press, Indianapolis, 1982).

[9]*Ibid.*, pp. 135–6.

[10]Eric Hoffer, "Beware the Intellectual," *Harper's*, October 1979, p. 63. See also Claire Sterling, *The Terror Network* (Holt, Rinehart, and Winston, 1981).

[11]Ayn Rand, *Atlas Shrugged* (Random House, 1957), pp. 546–7.

[12]Rose Wilder Lane, in *The Lady and the Tycoon*, ed. Roger Lea MacBride (Caxton Printers, 1973), pp. 268–9.

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Hans F. Sennholz

Unemployment in Puerto Rico

PUERTO RICO is an island commonwealth of the United States some 970 miles south-southeast of Key West and 1400 miles from New York City. It is a small tropical island, poor in natural resources, dramatically beautiful, and densely populated. It is a self-governing part of the U.S. with a Hispanic culture. Puerto Ricans are U.S. citizens; some 3.5 million are living on the island and another 1.5 million in the continental U.S.

Puerto Rico has the dubious distinction of always suffering from staggering unemployment which, at times, may amount to three times the national average. This is all the more puzzling as the federal government levies no taxes on Puerto Rico except those imposed by mutual consent for Social Security, workman's compensation, and other labor benefits. It collects no income tax from residents on income earned from local sources. But it makes transfer payments to individuals and governments totaling more than $3 billion annually, or $850 per man, woman and child, which amount to some 25 percent of all island incomes. Moreover, the federal government spends huge amounts and employs many thousands of civilians at federal facilities such as the U.S. Naval Station at Roosevelt Roads, the Navy's Sabana SECA Communications Center, and the U.S. Army Salinas Training Area and Fort Allen. One out of four Puerto Ricans is working for federal or local governments, and one is chronically unemployed.[1]

After 85 years of U.S. Govern-

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ment rule over the island[2] economic conditions are deplorably poor. Surely, they are more favorable than those of many other countries in Central and South America. But when compared with income and wealth in the continental U.S., Puerto Rico is an overcrowded poorhouse where, in spite of generous alms and transfer payments, many people subsist on minimal incomes.

Alleged Exploitation

Many observers throughout the world offer explanations that are taken from the armory of world communism and socialism. The U.S. as colonial conqueror and ruler of the island is indicted for "gross exploitation" of the working people of Puerto Rico. U.S. corporations and capitalists are said to use the island as their personal plantation and private domain yielding great riches to the exploiters while impoverishing the natives. No matter how popular it may be in UN quarters, such an explanation warrants no serious answer. It is sadly deficient in economic reasoning and utterly oblivious to the facts.

Most Americans summarily reject the notion of colonial subjugation and exploitation. But they may want to assign responsibility and blame to some presumed fault or deficiency on the part of Puerto Ricans themselves. After all, their society is predominantly Spanish in language, attitude and activity. Only some 25 percent of the people understand and speak the English language with more or less fluency. Although the Puerto Rican government expends about one-third of its annual revenue for education, the level of education continues to be rather low when compared with U.S. standards. Similarly, the level of industrial skills and on-the-job training compares unfavorably with those on the mainland.

Such an explanation of the Puerto Rican dilemma is, to say the least, frivolous and Philistine. It tends to preserve the status quo although it exhorts Americans to ever greater efforts toward almsgiving and transfer payments. It tends to perpetuate the misery while denying all hope for early improvement. And, above all, it confuses cause and effect and shifts the responsibility from the politicians in Washington to the victims in Puerto Rico.

Actually, Puerto Rico is probably the world's most vivid example of the absurdity of labor legislation. It demonstrates so cogently and convincingly that minimum wage laws and other labor legislation that raise the costs of labor do not improve economic conditions, but instead make them immeasurably worse. It teaches so clearly and graphically that government cannot raise wage rates and improve living conditions by political fiat and police force. But govern-

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ment can impose and enforce conditions that deny millions of people the opportunity to participate in economic production.

The Labor Market

In a market economy labor income is determined by labor productivity. To improve labor conditions is to improve the productivity of labor through the application of ever more efficient tools and equipment. It necessitates the formation of capital that makes human labor more productive and raises the output of goods and services. At the unhampered market rate anyone willing to work can find a job, and anyone seeking help can find a worker. There can be neither labor shortages nor mass unemployment.

In an unhampered market labor and capital tend to adjust continually to the demands of consumers. Labor tends to migrate to places where labor productivity and income are the highest. Capital tends to move to locations where its productivity and yield are the greatest. This continual adjustment process brings forth a tendency toward equable prices and rates of income throughout the market. The migration of production factors ceases only when no further advantage can be attained from migration.

If there were no institutional barriers Puerto Rican labor could be expected to flock to continental markets where labor productivity and wage rates are substantially higher, and continental business capital could be counted on seeking better investment opportunities in Puerto Rico. In time, wage rates and living conditions in Puerto Rico could be expected to resemble those on the mainland. However, even under ideal conditions of a laissez-faire system the former would always be lower by a small margin. The island is located more than one thousand miles from major sources of raw materials and the primary markets for its products. The relatively high transportation costs would forever keep the productivity of island labor lower than on the mainland, and therefore wage rates and levels of living.

In a free economy unconstrained by labor legislation economic production that is labor-intensive would locate in the island. Puerto Rico probably would become the U.S. center of a needlework industry and other highly labor-intensive production. Table and household linens, embroidered and drawn-work by hand, clothing embellished with fancy stitching and hand-rolled edges, appliqué work on towels, bridge sets, scarves, doilies, and pillow cases would be produced on the island, and sold on the mainland. And the American people as consumers would be greatly enriched by the productive efforts of some two million adult Puerto Ricans.

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Unfortunately, federal labor legislation is strangling economic life in Puerto Rico, condemning one-fourth of its population to linger in unemployment and poverty, depriving American consumers of desirable products or forcing them to rely on higher-priced imports from Hong Kong and Korea. But then, to alleviate miserable working conditions in Puerto Rico, the federal government, through taxation and deficit spending, exacts income and wealth from mainland Americans to sustain unemployed Puerto Ricans.

Population and Migration

At the beginning there was great hope and good reason for optimism. When Puerto Rico joined the U.S. market order and tariff area in 1900 its population of less than one million was suffering from the effects of centuries of government arbitrariness and mismanagement. In just three decades under the U.S. flag, visible evidence of material progress began to multiply. Trade and commerce flourished, agricultural production multiplied, and mainland industries invested in new plants and facilities. A middle class was coming into existence. As living conditions improved the death rate declined significantly, the birth rate virtually exploded, and the population doubled in just one generation.

Under U.S. dominion the Puerto Rican rate of population increase became one of the world's most vivid examples of the current population explosion. As always, rapid population growth invokes the law of returns and its derivation, the Malthusian law of population, which holds that a population growth exceeding the formation of productive capital and the production of means of sustenance tends to impair material well-being. It creates a race between economic gains and population growth, a race in which economic production has to run faster and faster so that the individual may stay in the same place.

In the early years of American sovereignty Puerto Ricans did not merely stay in the same place. They progressed despite the population explosion. But the rate of economic improvement necessarily lagged behind that of the continental U.S. It prompted the most adventurous and enterprising among them to emigrate to other parts of the U.S. During the 1890s thousands went to Hawaii where field hands were needed in the sugar industry. Early in the twentieth century many found employment in agriculture throughout the United States. However, the linguistic and cultural barriers and the great difficulties of adjustment to an alien environment kept the flow of Puerto Rican labor at a trickle. The early migration served to establish the needed beachheads which in time would encourage massive mi-

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gration. By 1940 New York City was home to 63,000 Puerto Ricans. Today, with some 750,000 Puerto Ricans, New York City is by far the largest Puerto Rican city.

The large exodus from Puerto Rico since the early 1940s brought immediate improvements to labor conditions on the island. As labor emigrated en masse the marginal productivity of labor at home rose significantly, causing wage rates and levels of living to rise. Moreover, many Puerto Rican emigrants did what many emigrants do upon arrival in the U.S.: they remitted some of their savings to family members left behind, which contributed visibly to improvements on the island.

Federal Dominion Over Labor

One particular event triggered the exodus of more than one million Puerto Ricans during and after World War II. The Fair Labor Standards Act of 1938 virtually lowered the curtain on many types of labor in Puerto Rico. It set a minimum wage of 25¢ per hour which produced massive unemployment throughout the island. When all wheels were grinding to a halt, a 1940 amendment to the Act provided for an arrangement different from any on the mainland. It created industry committees, convened by the U.S. Department of Labor, that recommended minimum wages to the Department. The Secretary then set the rate in accordance with a Congressional mandate: *the rate must be the highest possible minimum that will not give a competitive advantage to any group in the industry,* that is, it must be as high as comparative wages in the states. Incapable of earning the mandated minimum in Puerto Rico, many thousands of workers were forced to search elsewhere. In 1978 the U.S. Congress committed the ultimate folly: it discarded the obnoxious industry-committee procedure of determining the highest possible minimum in favor of the original 1938 mandate—the full U.S. minimum wage. The minimum of $3.35 an hour was made effective on January 1, 1981.[3]

On the mainland the minimum wage may amount to one-half of the average industrial wage and may affect some ten percent of the working population. In Puerto Rico the same minimum approaches the full industrial wage and affects the vast majority of working people. The going wages paid are at, or close to, the mandated minimum. In agriculture some 90 percent are paid the minimum or near-minimum, in tobacco processing 99 percent, belt manufacturing 81 percent, women's hosiery manufacture 63 percent, children's dress manufacture 79 percent, milk processing and distribution 62 percent, candy and gum production 62 percent, and vitreous china manufacture 69 percent.[4]

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Consequences of Fixing Wages at Higher than Market Levels

Some of the consequences of the federal minimum set above the Puerto Rico market rates are difficult to observe. Economic activity is forced to move from labor-intensive methods of production to capital-intensive methods, or does not occur at all. Labor-intensive industries no longer settle in Puerto Rico, but move somewhere else. The unemployment is further exacerbated by reductions in working time. Many employees are working only 35 hours a week or less although they are anxious to work more hours. But employment time, too, is a function of the costs of labor. Thus, while the federal minimum wage lifts some 20 to 25 percent of all workers right out of the labor market, it may condemn another 10 to 15 percent to underemployment.

Many hapless workers thus cast out from productive activity may find their way into the undergound economy where the federal mandates are completely ignored, or into self-employment and subsistence farming not covered by the minimum wage law. The long arm of the federal government cannot possibly reach into the complexities of self-employment and subsistence farming and mandate the price of independent labor. If it could, it would close the last legal escape route to a useful existence for many enterprising individuals.

But while this route may yet be open to individuals with entrepreneurial inclination and ability, the influx of a great deal of labor set free in covered occupations tends to depress the income from self-employment and thereby discourages entrepreneurial activity. Moreover, it only allows for the escape of one entrepreneur at a time. If one is successful through hard work and long hours of work at below-minimum rates he cannot legally buy the services of other workers at his own rates. His would-be helpers again are excluded by the minimum barrier.

In Puerto Rico, labor participation as a percentage of adult population is much lower than in the continental U.S., which is a clear reflection of the "lack of job prospects" for many. In 1978, the percentage of adult population in the continental labor market was estimated at 62 percent; in Puerto Rico it was only 44 percent.[5] No matter how psychologists and sociologists may want to explain this difference, the futility of a job hunt surely contributes to the low participation rates in the island.

Moreover, the high unemployment rates and low participation rates discourage on-the-job training, which is most unfortunate in Puerto Rico where both formal education and vocational training are significantly lower than in the continental U.S. Where fully trained workers

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barely earn the legal minimum, there will be little hiring of trainees at that rate. It denies employers the opportunity to teach and workers the opening to learn, which may condemn the latter to remain unskilled for the rest of their lives.

For many Puerto Ricans the movement to the continental United States, where labor productivity is substantially higher, offers the only escape from a life of idleness and despair. The federal labor legislation is thus redistributing the working people over all fifty states. In Puerto Rico itself the federal mandates have depopulated whole areas and caused major cities to decline. During the 1950s, a decade of unprecedented population explosion, of the eleven largest cities, seven declined in population. Mayaguez, once a center of the needlework industry, lost 14.9 percent, Bayamon 25.1 percent, Fajardo 19.1 percent, Aguadilla 12.8 percent, Caguas 5.2 percent.[6] In search of better economic opportunities many residents of these old cities probably found their way to Brooklyn, New York.

The aggregate effect of the U.S. minimum wage on Puerto Rico is one of incredible devastation and humiliation. Some 25 percent of the working population are presently unemployed, 10 to 15 percent are underemployed, some 10 percent are subsisting in self-employment or primitive farming, 18 percent no longer participate in the labor market, and 5 percent subsist on public assistance. Altogether, it is a gruesome picture of the consequences of mischievous labor legislation.

Intent and Design

If labor legislation has such dire consequences in Puerto Rico, why does the U.S. Congress in its collective wisdom impose such mandates?

There are the representatives of infinite political power who deny all cause-and-effect relationships in economic life, but instead believe in raw political power. They are convinced that the coercive apparatus of government can accomplish anything its managers set out to accomplish. If they conclude that wage rates and living conditions should be improved in Puerto Rico they blithely proceed to introduce legislation that will enforce the desired improvements.

A great many champions of government coercion consider themselves noble humanitarians. They are motivated by a laudable intention to improve the conditions of poor people everywhere. Guided by a comfort-and-decency standard of life, which they calculate in dollars and cents, they proceed to legislate it. If economic conditions should get worse they usually add more legislation and, with humanitarian zeal and dedication, apply more police force.

Labor unions are organizations of

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workers that serve a single purpose: to secure for their members wages and benefits that are higher than those allocated to them by the voluntary production process. Only one policy can bring this about: collective force. Labor unions preach and live by force which may be purely economic, such as strikes or the threat of strikes, or openly political, through labor legislation that favors their members at the expense of others. Only such a force applied consistently and fervently throughout the decades can explain the great evil that is wrought daily on Puerto Rico.

Labor union leaders in the U.S. are the most vocal promoters of ever higher minimum wage rates. In the name of "fair competition" they seek to repress all labor and production that is performed at rates lower than union rates. Such repression usually allocates more work and income to them. By depriving Puerto Ricans of employment opportunities and by reducing the supply of goods manufactured in Puerto Rico they aim to generate more employment for mainland workers at union rates. To the degree that they are successful through federal labor legislation they are enriching their members while impoverishing the Puerto Rican people as workers and the American people as consumers.

But even such evil political designs have their economic limitations as the production restrictions imposed by minimum wage legislation bring forth rising imports from Hong Kong, Korea, and other countries that are free from U.S. labor jurisdiction. Imports take the place of goods not produced in Puerto Rico.[7] In the end, neither Puerto Rican workers nor unionized mainland workers are manufacturing labor-intensive products, but foreign workers all over the globe.

It is a well-established principle of interventionism that a government restriction makes matters worse and leads to more and more restrictions until every detail of economic activity is controlled by government. But it is also true that radical intervention aims at many contradictory objectives that clash with each other and seek to counteract and offset each other. In Puerto Rico the U.S. Congress and the Department of Labor endeavor to suppress economic activity below a minimum scale, which lays waste to the island economy. But the Department of Health and Human Resources then rushes to the rescue of Puerto Ricans with massive financial benefits that probably make the island the most expensive territorial possession in the world.[8]

San Juan Worse than Washington

It would be a grievous mistake and an injustice to lay the blame for Puerto Rican stagnation and poverty on Washington politicians and bureaucrats alone. After all, the fed-

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eral rule over the island has never been so imperious that the voice of the people could not be heard. Since 1941 the San Juan cabinet has been composed solely of Puerto Ricans. Since 1946 native Puerto Ricans held the office of governor. In 1947 a Congressional act granted Puerto Rico the right to elect their own governor. And in 1952 a constitution for a self-governing Commonwealth was approved by the voters, and confirmed by the U.S. Congress.

In numerous local elections most Puerto Ricans have consistently and convincingly opted for radical government intervention in their economic affairs. During the 1940s they emulated Roosevelt's New Deal with all its political ramifications and regulatory offshoots. In fact, they frequently went far beyond mainland interventionism and experimented with island socialism.

Under the leadership of Muñoz Marín and his Popular Democratic Party, which came to power in 1940, the island government embarked upon a social and economic "revolution" of its own. It expropriated agricultural land owned by mainland corporations and put it to government use or sold it to natives. In order to "rationalize" agriculture through industrialization it established government sugar farms and purchased mills primarily for "yardstick" purposes. It built pineapple canneries, slaughterhouses, factories for making shoes, glass bottles, paper and cardboard, clay products as bricks, tiles, and ceramics. It built hotels and motels and went into the tourist business. In TVA fashion it generated electricity and distributed it to all parts of the island.

The legislature is composed in a large measure of labor leaders who make constant efforts to raise wages as rapidly as possible. Every two years a board reviews the Commonwealth minimum wage. If its recommendation exceeds the federal minimum it becomes the law of the island. Government enterprises and government itself are viewed as the employers of last resort, offering jobs to a maximum number of people. At the present, one out of four Puerto Rican workers is laboring for the Commonwealth Government.

As one would expect, the indebtedness of the government and its autonomous public corporations is always hovering at the very limit of their debt capacity. New credits when granted by mainland banks and other sources lead to immediate acceleration of public works, which, when put to a vote by the electorate, are endorsed overwhelmingly.[9]

Debts and Taxes

As one would also expect, the commonwealth government is ever eager and anxious to exact more tax revenues from its subjects. It imposes a corporate income tax that

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ranges between 22 percent and 40 percent, an individual income tax up to 72 percent, an excise tax of 5 percent to 80 percent, license taxes at various rates, property taxes of some 2.3 percent, estate and gift taxes up to 70 percent, municipal sales taxes from 1 to 5 percent of dollar sales, and a special tax of 50 percent on the "improper accumulation of surplus or profits." Under a program known as "Operation Bootstrap," the government may grant exemption from major taxes to firms satisfying certain employment conditions.

If the general tax burden should not discourage economic production, the following payroll taxes that directly raise the costs of labor may erase all doubt:

1. The Social Security provisions of the United States are in force in Puerto Rico.

2. Employers must pay both the U.S. Federal Unemployment Tax and the Puerto Rico unemployment compensation tax.

3. All employers are required to pay a Disability Benefits Tax that finances benefits for illness and accidents whether or not they are related to employment.

4. Workmen's Compensation Insurance is payable at various rates.

5. Employers must pay a Christmas Bonus of at least two percent of a worker's annual wages up to a maximum of fifteen percent of the employer's net income.[10]

If it is true that the demand for labor depends on the costs of labor it must be concluded without risk of contradiction that the Puerto Rican government itself is significantly raising the costs of labor and thereby reducing the demand for labor. In short, it is contributing significantly to the mass unemployment there.

Island Independence

The dismal conditions of labor in Puerto Rico and the prospects of economic stagnation for generations to come, raise the crucial question of desirability of island separation from the U.S. Many Puerto Ricans themselves favor national independence and sovereignty. They are supported by national liberation forces and their communist allies all over the world. In the United Nations organization several dozen countries are strongly urging Puerto Rican independence, and world public opinion is loudly lamenting the sad fate of Puerto Rico.

But such a solution would probably make matters worse. It is rather likely that, in a sovereign country of their own, the Puerto Ricans themselves would resort to radical intervention, different in some details but similar in basic design to that experienced as part of the U.S.[11] They would inflict immeasurable harm on each other through labor legislation of their own and other redistributive policies, but lose the massive U.S.

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support that is sustaining them now.

Without a tradition of individual freedom and an unhampered enterprise system, and short of any visible intellectual force and popular support for individual freedom from political power and arbitrariness, the intellectual conditions are lacking for a free and prosperous commonwealth. Instead, it is rather likely that an independent Puerto Rico would soon follow in the footsteps of many of its Spanish-speaking neighbors, such as the Dominican Republic, Haiti, and Cuba. And once again the U.S. would have to brace for a flood of refugees fleeing from their own misery and chaos and searching for survival in the U.S.

The only hope for a brighter future for all Puerto Ricans rests in the hands of the lovers and champions of individual freedom everywhere. There is hope as long as they are pressing the point that minimum wage rates and other labor legislation cannot possibly improve the working and living conditions of all the people, but make them immeasurably worse. There is ample work for everyone and great prosperity for all in freedom. When American public opinion finally understands this simple lesson of economics and causes the U.S. Congress and the Commonwealth legislature to remove the labor shackles from Puerto Ricans, the island will spring to new life.

—FOOTNOTES—

[1]Ernst & Ernst, *Puerto Rico*, International Business Series, March 1971, July 1971, Sept. 1973; Earl Parker Hanson, *Puerto Rico: Ally for Progress* (D. Van Nostrand Co., Princeton, N.J., 1962).

[2]Spain ceded Puerto Rico, Guam and the Philippine Islands to the United States by the Peace Treaty of Paris, on Dec. 10, 1898. The Philippines gained independence in 1946. Guam and Puerto Rico continue to be associated with the U.S.

[3]U.S. Department of Labor, Wages and Hour Division, *Minimum Wage Rates for Puerto Rico* (WH Publication 1348, Washington, D.C., 1978).

[4]U.S. Department of Labor, *Wage Structure and Fringe Benefits in Puerto Rico* (Washington, D.C., 1979), p. 187.

[5]Puerto Rico, Bureau of Labor Statistics, *Informe Estadistico* 1, No. 11, November 1979, Table 1.

[6]Earl Parker Hanson, *ibid.*, p. 52.

[7]Simon Rottenberg, "Minimum Wages in Puerto Rico," *The Economics of Legal Minimum Wages* (AEI, Washington, 1981), pp. 334–338.

[8]It is interesting to note that the U.S. Government now manages to spend in excess of $3 billion on Puerto Rico every year, which is 150 times the amount it paid to Spain in 1899 for the transfer of sovereignty of Puerto Rico, Guam and The Philippines from Spain to the U.S. Even if total government expenditures for the Spanish-American War, which amounted to less than $130 million, were to be included in the purchase price for Puerto Rico, U.S. Government expenditures for health, welfare and human services now exceed the costs of war and conquest manyfold. As seen from a purely financial point of view, the Spanish-American War has become a very expensive war.

[9]Earl Parker Hanson, *ibid.*, pp. 90, 91, 102–106.

[10]Ernst & Ernst, *Puerto Rico, A Digest of Principal Taxes*, July 1971.

[11]cf. Robert W. Anderson, *Party Politics in Puerto Rico* (Stanford University Press, 1965).

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Ben Barker

Abundance and Scarcity

THERE are two opposing philosophies prevalent regarding the natural distribution of wealth on this earth. One presumes that virtually all material wealth has already been discovered, and the role of man is to distribute that wealth in an equitable manner. This view is the one that has predominated throughout most of recorded history and has saddled man with one monumental conflict after another. The other philosophy assumes that wealth is boundless in the universe, and man must merely discover new combinations of behavior and/or existing matter in order to unlock the vaults to that vast, undiscovered mass of benefits.

The shape and nature of a social order is a consequence of whatever ideas dominate in that particular society. Civilizations which endorse the idea of scarcity, or limited wealth, tend to be rigid and structured. They are likely to be ruled by individuals whose concept of leadership is to create and implement wealth redistribution formulas that assure adequate food, shelter and warmth to members of their own group. Secondarily, if there does not appear to be an adequate supply of internal wealth to distribute, a warrior class may emerge whose role is to raid other groups and forcefully extract goods to bring back home.

In such a society there is a natural tendency for the warrior segment to achieve positions of dominance for theirs is a twofold role. They must raid and plunder surrounding groups, *plus*, they must preside over the wealth redistribution process at home by force of arms. Since the most common personality trait in such a

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society is rigidity, there usually exists an abundance of rules and regulations governing not only property but all manner of dealings between individuals. The basic premise is one of scarcity. Hence rule by force is necessary, for such a presumption takes for granted that one man will take from another less powerful unless restrained by an even more potent force.

Most of us are unable to see that such a pessimistic viewpoint is but a matter of perspective. Is the glass half full or half empty? Were not the raw materials for the space shuttle Columbia buried in the earth alongside the materials for the craft that first flew at Kitty Hawk? Man is a noble creature, gifted with rare skills in comparison to the remainder of plants and animals. These skills allow us to manipulate our environment in ways unavailable to other forms of life. If we activate our talent to think and plan, we can literally recreate the world. The ideology of scarcity ignores that ability and presumes that God created a universe in which, for me to have enough, another must starve.

Boundless Wealth?

The ideology of abundance presumes that the wealth of the universe is boundless, and that we must merely put our minds to the task of tapping that wealth—and it will come. The difference in perception in these two philosophies is startling, and one can produce a vibrantly alive world for the believer if acted upon. Countless men have met their deaths journeying to the far ends of the earth in search of fortune. The Yukon, the Alaskan north slope, mine shafts cut deep into solid rock in South Africa, Chile, Peru, and even our own coal mines. Yet a man in the American southwest recently tinkered with a tin can, a small gasoline engine and a piece of string and found great wealth. He invented the rotary weed-cutter and changed the gardening habits of millions of us.

When enough of us finally tumble to the fact that both wealth and progress lie in appropriate utilization of the mind, our nation and the world may begin to move forward again. The task of this era is to free creative minds from the bounds of bureaucratic conformity and ineptitude and allow them to pull us out of the economic and social mess that we have tumbled into. Government must get out of the way! It must stop taxing us into oblivion. It must stop punishing intelligence and creativity and stop rewarding indolence and ineptitude. These tactics will lead to a failed society. If bread, circuses, a huge bureaucracy and a Senate that's a joke could hold a social order together, then Rome would still be a mighty nation.

The philosophy of scarcity is tinged with envy, greed and meanness; we

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don't need it. For as long as there have been written records, men have been predicting that we would soon run out of raw materials. Have we? For the better part of the past decade a horde of supposedly brilliant analysts told us that we had at last nearly depleted the earth of oil. The OPEC cartel exploited that fantasy, and was aided and abetted in that disastrous experiment in social manipulation by the U.S. Department of Energy. We spent billions of dollars on that Department, and more billions on the overpriced oil that its policies perpetuated. Did we run out of oil? Not hardly. Today the world is bathed in an oil glut and our banking system is stretched to the limit because it bought into the illusion of oil scarcity.

All of the limitless material wealth of this universe is open to the inquisitive, exploring mind. Our fires will remain lit either with wood, kerosene, coal, gasoline, or some yet-to-be-discovered substance. New inventions will warm us, cover us, lift us and move us—if they are needed, and if the inventor is provided sufficient reward for applying his mind to the problems that we must solve. The greatest danger that our culture faces today is that those with truly creative potential will remain preoccupied with trivia such as animated cartoons, self-stimulatory electronic games and complex weapons of annihilation. Obviously, the reason that our creative geniuses are presently tied up in such pursuits is because that is where the rewards are. A pity.

Explosions of Creativity

Periods of incredible expansion in the quality and capacity of life occur when certain basic conditions have been met in the human situation. These conditions have to do with freeing the mind, are cyclical throughout history, and the relative scarcity or abundance of resources has little or no bearing upon them. The social and cultural factors which enhance creative thinking jelled in Greece to produce Aeschylus, Sophocles and Euripides almost simultaneously. A later period of the same culture brought forth Socrates, Plato and Aristotle. Likewise, there were no geniuses at all in England between 1450 and 1550, but a whole series of them in literature, music, science, philosophy and politics between 1550 and 1650. Germany saw a similar explosion of creativity between 1700 and 1800.

In examining these separate periods of Western history, more than a few sociological parallels are obvious. First, the cultural substrate which feeds genius consists of an *open*, *receptive* social order not focused exclusively on only one aspect of human life, whether that be militarism, religion, comfort, sensuousness, materialism or something else.

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Secondly, the culture must place a stress on *becoming*, not just on being. This translates to a tolerance for, and even an encouragement of transitional phase behavior. Genius tends to plan ahead, often very far ahead, and a society that focuses on being emphasizes immediate gratification, comfort and pleasure and distrusts activities that relate to remote goals. Becoming, though, should be part of being, and the mature, thinking individual is always becoming, for today he is somewhat different from the way he was yesterday, and tomorrow he will be different from the way he is today.

Next, other forms of *freedom* and *tolerance* must be manifest in the culture for it to grow and develop. The creative individual must be allowed to move unhampered between different and even contrasting cultural stimuli. America itself emerged from a synergistic combination of English and German philosophies, values and traditions merged with the new, adventurous, enterprising and individualistic spirit of the colonies.

Those who focus upon the material resources that creative eras utilize to express their wealth miss the entire point of the matter. The explosions of knowledge, wisdom and mastery of the environment such as took place when Americans moved westward and settled the frontier are *not* secondary to the land conquest. It is the other way around—the knowledge explosion made the land conquest possible. The Indian could not stop both the gun and the new plow. An idiot alone on an island with a family of chickens will eat roast fowl, then starve; an individual of creative intelligence will develop an array of egg recipes and will learn to breed and cull his flock.

Both the conquest and exploitation of the frontier and the survival tactic on the deserted island are done best when creative juices are sprinkled on the situation. If our nation is to emerge intact from this era of economic instability it must move again toward the type of social order which both rewards and fosters creativity. If you unduly tax creativity and productivity (which we do) you will get less and less of it, and if you reward indolence you will soon be drowning in indolent beings (which we are).

Instruments of Socialism and Cultural Decline

The philosophy of scarcity is a predominant influence in producing the slide of our great nation toward oblivion. The government and the instruments of education and persuasion are currently in the hands of those motivated primarily by that philosophy and the grasping greed it produces. Control, dominance and wealth redistribution are the socialist formula, and they are techniques

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of cultural suicide—not growth and development.

The philosophy of abundance recognizes that free minds can and will wrench wealth from the environment if allowed to do so. Just as the space shuttle Columbia lay undiscovered in the crust of the earth until our minds were ready to conceive it, there are even greater discoveries yet to be made. These discoveries can and will produce a social order of growth and abundance if they're not prevented from doing so by the choking bureaucracy of our repressive, ever-hungry government.

Unfortunately, many are placing their trust in the apparatus of government at this time of economic and social crisis in the mistaken belief that it can reverse the process of decay and dissolution. This hope is sheer folly, for it has been the unrelenting implementation of counterproductive government policies which has been the major force in creating the onrushing calamity. The public debt is beyond control, the size of the bureaucracy continuously escalates, and even those who sense the reality of an impending calamity are in the grip of a vague, anesthetized helplessness which is usually described as malaise.

Others are trusting in material objects such as diamonds, gold, silver, art or antiques to shelter their wealth during this period of instability. An external device of dubious value (currency) is used to acquire other external devices (goods) of less dubious value, and these devices are then secreted. We call people who randomly steal items for which they have no reasonable immediate or deferred need kleptomaniacs and consider them ill. People who purchase a variety of items with equal randomness we call consumers and have built an entire commercial system about them.

Materialism Is an Outgrowth of the Philosophy of Scarcity

Materialism, or the preoccupation with the acquisition of money or the devices it can purchase, is an outgrowth of the philosophy of scarcity. Surely, if *things* are the measure of man, and if there are not enough things to go around, then it is reasonable to be constantly concerned with acquiring things. The thing-oriented individual often decides that it is a waste of time to continue to yearn for the old freedoms, questions whether or not they ever really existed anyway, and busies himself constructing substitute gratifications to replace those he feels have been permanently lost.

Those of us who are thing-oriented people often view both objects and people as commodities—including ourselves. We think, "I am what I have"—and we collect injustices done to us as if those injustices were valuable possessions as well. Our

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dreams are of great wealth, romance, intrigue and power.

If we're men, we lavish a great deal of attention on our automobiles or other shiny objects and well-kept possessions such as condos, rental houses, yachts, and the like. If we're women, we are likely to lavish our affections on our jewelry and our personal appearance. We feel more comfortable touching objects than we do touching each other—especially objects that we own. Additionally, we spend a great deal of time and energy safeguarding our possessions from theft, taxation or random destruction. Indeed, we often appear to be owned by our things for they command so much of our thoughts and activities.

Such materialistic, thing-oriented, scarcity-dominated behavior can be termed life-rejecting. Those among us who are life-rejecting tend to carry our bodies stiffly. We view relationships from a paranoid angle, feeling exploited by nearly everyone. We respond to these feelings by projecting a free-floating resentment, coupled with anger and envy, out onto the world. We would deny the rich and powerful, as well as the powerless, the right to enjoy pleasures that we cannot experience. We tend to view work as a duty and pleasure as sinful and immoral. We may own many things, but we often hurt those people who come close to us.

The life-rejecting obsession is with control and dominance, so we are often found within hierarchical situations. That includes government, the military, educational institutions, or some large corporations. We are the bureaucracy. We scorn disorganized "messy" personal relationships and prefer those in which a superior-subordinate interaction is precisely defined—the more precise the definition the better.

Life-Oriented Behavior

Adherents to the philosophy of abundance, on the other hand, are life-oriented rather than thing-oriented and life-rejecting. Those among us who feel this way tend to view the universe as a vast tool placed there by the Creator to assist us in achieving self-actualization. We learn to fully experience and express our feelings and tend to be loving and accepting of others. We are capable of outer-directed, or helping, behavior, even though our primary motive for such behavior may be self-actualization. The difference is best seen in the idealistic social worker *versus* the inventor.

An inventor is perceived as selfish and preoccupied with his own creations and the social worker as altruistic. However, if the inventor is successful in creating a meaningful new product (lightbulb, flush toilet, hot-water heater, weed cutter) he can profoundly affect the quality of life

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of all society. That is the essence of effective outer-directed behavior.

Such people tend to be spontaneous and open, and present themselves in a loose, natural style. Their work allows them to feel competent and self-reliant, and they don't wait for others to fill their needs or solve their problems. Perhaps most importantly, life-oriented persons are capable of deep, profound relationships bathed in freely flowing and totally experienced feelings. They learn to activate and express buried potential—aesthetic creation, selfless service, communion with nature. They learn to become one with the environment rather than merely dominating it.

As the Renaissance swept aside the bleak intellectual torpor of the Dark Ages, this era of bureaucratic banality is likely to be jolted by an awakening. But such an awakening will not come easily. Creative, individualistic believers in the abundant universe must shoulder their way through the deadwood of a social order choking on its own pollution. Small men with small minds hooked into the philosophy of scarcity and lusting to control and dominate the assets and lives of others are in the halls of power and must be displaced. Until and unless they are we will continue on the road to social chaos.

Those who preach that this is the age of limits are only projecting their own myopic view of the world. The concept of limits is acceptable to those who have lost the capacity to grow and develop. It allows them to rationalize their own narrow achievements. But it ain't necessarily so. At one time surgeons would not cut into the human abdomen for fear of a fatal outcome. Today abdominal surgery is commonplace, and operations on even the heart and brain take place on a daily basis. These and other miraculous vistas open each day in the field of medicine, and similar progress can doubtless occur in other disciplines as well.

The Computer Revolution

The electronics industry represents the cutting edge of modern technological development. Properly implemented, the computer revolution will bury once and for all the idea that there are limits to exploration and utilization of the environment. Entirely new industries will spring up around this new socio-cultural entity and these industries will rejuvenate America's manufacturing infrastructure. We will march from this point into an age of unprecedented prosperity if we but allow ourselves to do so.

At one time men believed that the world was flat, and that earth was the center of the universe. One man spoke up against this misconception and announced that not only was the world round, but that earth was only

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one of several planets revolving about the sun. His observations brought him ridicule and agonizing persecution—but his truth eventually prevailed. Without the appropriate mental concept of a spherical earth in orbit about the sun, men would not have made it to the moon, or placed the satellites in orbit, or done a thousand thousand other things that have permanently altered the quality of life.

So it can be with the concept of a universe of boundless abundance. Once man can accept the fact that the power of the mind is limitless, he can begin to apply that power in a myriad of ways to improve his existence. It would seem far better for us to invent new techniques to implement the vast number of raw tools God has provided than to scheme, fight and plunder each other for the few resources that have already been converted to physical wealth.

In the final analysis man, collectively and singularly, is the measure of himself. We can accomplish what we believe that we can, find what we want to find, go where we want to go. The magic carpet in the universe without limits is your mind. Use it.

For the Better Economic Life

IDEAS ON LIBERTY

IDEAS formed in a man's mind, after it has been trained and sharpened by education and experience, are the basis of successful research. Without the creative brain of the scientist, all investment in research is worthless. American scientific laboratories are the best equipped in the world. Yet continued progress will be insured only if the rights of the individual to exercise freely his initiative are reestablished and jealously guarded.

American research prospered by providing rewards for success; the inventive genius of the nation was kept alive by adding to it what Lincoln called "the fuel of incentive." Further, the integrity of American research was kept inviolate; the research worker was spared the necessity of finding "political" conclusions as the goal of his investigations.

In this atmosphere of free inquiry and of freedom of the individual to enjoy the fruits of his labor, science here flourished. Elsewhere in the world, it has suffered serious setbacks. . . .

Without freedom, scientific research and the progress in its wake will falter in the United States, as has happened elsewhere. The individual must be assured the freedom of incentive. The university scientist must have freedom of inquiry, of discussion, and of publication.

CRAWFORD H. GREENEWALT

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At the Eye of the Storm

On its journalistic level Ron Arnold's *At the Eye of the Storm: James Watt and the Environmentalists* (Regnery-Gateway, 282 pp., $14.95) is a book about contemporary politics. Arnold's immediate aim is to defend Jim Watt, our embattled Secretary of the Interior, from attacks that are really aimed at Ronald Reagan. But the deeper intention of the book is to challenge the extreme modern breed of environmentalist on religious grounds. It is this aspect that will give the book its lasting value.

A former activist in the environmentalist movement, Ron Arnold quit the Sierra Club because it seemed to him it was intent on asserting a monopolistic religious claim to "the powers of salvation and healing" as it pushed its fight to preserve the landscape. The old Sierra Club had had a practical mission; it was to preserve certain chosen wilderness areas and to foster outdoor activities, but not at the cost of denying people the "wise use" of necessary range lands, forests and mineral deposits.

Although John Muir, the patron saint of the Sierra Club, could be pretty mystical in his nature worship ("the groves were God's first temples"), the Club, prior to the Nineteen Forties, still held to the old ideas about conservation promulgated by Theodore Roosevelt and Gifford Pinchot in the Bull Moose era. As a forester Pinchot applied the ideas specifically to the federal forest lands. Save for the wooded portions of our national parks, the federal forests were to be put on a

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"sustained yield" basis, with new seedlings taking the place of mature trees as they were "farmed" for lumber just short of their imminent decay.

Conservation vs. Preservation

With Teddy Roosevelt and Gifford Pinchot, conservation was not to be confused with preservation. There was a point in preserving sequoia and redwood trees, which had century-long lives. But "preservationism," when applied on a dogmatic basis to forests of Douglas fir and Sitka spruce, would result in ecological museums filled, eventually, with old and rotting trunks of no esthetic beauty and little economic value.

In brief, Roosevelt and Pinchot believed in trusteeship. They were for complete preservation of natural wonders. But "multiple use" should prevail in the rest of the federal patrimony.

The conservation ethic was perfectly compatible with a belief in economic expansion. But the preservation ethic, which has taken over in all advanced environmentalist circles, looks upon economic expansion with jaundiced eyes. Belief in the orderly, efficient use of resources to give opportunity to more people, and to raise the general standard of living, is regarded by the preservationists as a desecration. With the preservationists, development is a crime.

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at $12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

Naturally, when Jim Watt, as a believer in the traditional idea of conservation as "wise use," became Secretary of the Interior, the preservationists took immediate alarm. All that they knew of Jim Watt was that he had, as head of the Mountain States Legal Foundation in Colorado, taken the side of industry in some disputes that grew out of arguments about multiple use. The preservationists jumped to the conclusion that anyone who would defend a business interest in an environmental matter must be for lumbering or encouraging mining exploration in the national parks.

Watt, manifestly, had the wrong religion: he believed in a Christian God, not the mystical God of Nature. So the campaign against Watt roared into high before anyone had really taken a proper measure of the man.

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Actually, as Ron Arnold explains it, Watt's ambitions, as Secretary of the Interior, would meet with the full approval of Teddy Roosevelt and Gifford Pinchot. Arnold tells of the first meeting of Watt with President Reagan. There was instant rapport between the two men. Within a few minutes they had settled on five major Department of Interior objectives. The first would be to open up the public lands to multiple use in the classic Teddy Roosevelt manner. The second was to reduce our national energy dependence—which meant spurring offshore oil development. A third objective was to establish a national metals policy, which could begin with an inventory of minerals in the public domain. Fourth, the deterioration of the National Parks must be halted. And fifth, leadership in the Department of the Interior should be provided by paying special attention to what Watt described as "management by objectives."

A Proper Minerals Policy

Ron Arnold's point is that there is nothing subversive of conservationism in the five-point agenda decided upon by Reagan and Watt. But when Watt began looking into metals policy matters he discovered that 42 per cent of federal land was closed to mineral entry, and an additional 25 per cent was "highly or moderately restricted." There were eighty different laws, executive orders and regulations dealing with non-fuel minerals. So finding a proper minerals policy inevitably meant stepping on a few toes.

Watt has offered to resign as Secretary of the Interior any time the President asks for it. Since the implacables of the environmentalist movement remain dedicated to the idea of getting rid of the man who enjoys the wilderness without feeling called upon to worship it, Watt may be gone before Reagan completes his first term. But the problems posed by the environmentalists' animus against development, or the "wise use" of resources, will remain.

Resources are for people. The cobalt that might be found in Idaho cannot rightly be allowed to remain in the ground when our defense industries need it. Nor can we refuse to harvest trees when lumber is required for new homes for the Baby Boom generation. ⊕

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USSR: THE CORRUPT SOCIETY
by Konstantin M. Simis
(Simon and Schuster, 1230 Avenue of the Americas, New York, NY 10020), 1982
316 pages ■ $14.95 cloth

Reviewed by Bettina Bien Greaves

SCARCITY exists everywhere in the world. However, flexible prices and the efforts of entrepreneurs keep serious bottlenecks and shortages to a minimum in a market economy. Flexible prices reflect market supply and demand. Entrepreneurs who are alert to shifts in demand and supply make determined efforts to offer more of those items for which demand is rising. If they succeed, they will make profits and consumers will be better satisfied.

In Russia, however, it is a very different story. There the state seeks to monopolize all production and distribution. Prices do not reflect supply and demand. Private enterprise is illegal. Because private entrepreneurial efforts are prohibited, production bottlenecks are everywhere and almost all the things people want are shoddily produced and in short supply. Yet people in urgent need of some good or service that the state does not provide to suit them—meat or flowers for a special occasion, toilet paper, plumbing repairs, prompt dry cleaning service, or considerate medical attention—will use any means necessary, even illegal means, to obtain the things they want. No amount of government control, not even the threat of severe sentences, will keep people from trying to satisfy their wants and needs; it only makes it risky and expensive. The corruption that results when peaceful private pursuits are thwarted is the subject of Konstantin Simis' book.

The first draft of this book had been smuggled out of the country to the United States where Mr. Simis expected to have it published under a pseudonym. However, in November 1976, when the final revised version was in his Moscow apartment, he was arrested, his apartment searched, his manuscript confiscated and both he and his wife taken in for questioning. They were allowed to return home that night and their daily lives continued—under constant surveillance and subject to frequent interrogations—until May 1977 when he was expelled from his job. A month later his wife lost her job too. Then abruptly in the fall of 1977, they were given the choice of going on trial for the book and being sentenced to the camps, or of applying for "permission to emigrate" and leave the country within ten days. The Simises chose exile, eventually reaching the United States and, in spite of KGB threats, went ahead with his book's publication.

We hear frequently how much the

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Russians depend on the food produced on private farm plots, representing only about 3 per cent of the country's arable land. However, much less is heard about the dependence of all production on private, often illegal, activities of producers and speculators in all areas of the economy. Many goods and services are available only from black-market "speculators." Others are available only in exchange for "gifts" or bribes of some kind. Even official state enterprises must pay tribute of some kind to obtain the materials they need to fulfill their production quotas and to keep production moving.

Mr. Simis writes about widespread buying and selling of merchandise by private entrepreneurs. Such "speculation" is a criminal offense in the Soviet Union and the speculator who is caught faces a court trial and severe penalties. Yet the people themselves consider speculators as "a useful and necessary part of daily life. . . . Speculation has become part and parcel of the life in the Soviet Union because it supplies people with daily needs." Mr. Simis writes of several private entrepreneurs who succeeded so well in serving their customers that they amassed millions in gold coins, gems, valuable paintings and historic relics. Yet their success was at serious risk and some were sentenced to many years in the camps.

Mr. Simis writes also about "free lance" production, i.e., work done outside working hours, outside the system, and of "left-hand" or illegal, enterprises. Some private "factories" exist within state factories, often "employing" state employees on the side and using materials stolen from the state.

The people think nothing of cheating and stealing from the government or a state enterprise. Corruption and bribery are part of every ordinary person's daily life—from the cradle to the grave. To receive adequate care at childbirth, a mother bribes the doctor. Kindergarten tots soon learn that the teacher must be "remembered" on her birthday if the child is not to be held up to ridicule before the class. By the time a student enters the university, he knows that every aspect of schooling has its "price"—so much for admission to a prestigious institution, so much to pass an exam, and so on. Frequent bribes or "gifts" are called for simply in the course of daily living. And after death, bodies are stripped by crematorium employees of gold teeth, crowns and clothing, which soon find their way to the black market.

The system of tribute and gifts is everywhere in Russia. Everyone is on the take—the police, the KGB, high officials, as well as ordinary persons struggling to survive. The Soviet citizen sees nothing immoral in cheating or stealing from government. "Usually," Mr. Simis writes,

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"he understands perfectly well that he is breaking the law, but he does not consider his actions immoral. . . . But in private dealings this same citizen will conduct himself in accord with the precepts of common human morality." Thus, Mr. Simis has deep respect for the Russian people personally. However, he is pessimistic about the future of his native country. The ruling apparatus is "completely infected by corruption," he writes. "The Soviet government, Soviet society, cannot rid itself of corruption as long as it remains Soviet." And to expect the Soviet government to change its nature is almost as unlikely as to expect the leopard to change his spots.

DEVELOPMENT WITHOUT AID: GROWTH, POVERTY AND GOVERNMENT
by Melvyn B. Krauss
(McGraw-Hill Book Co., 1120 Avenue of the Americas, New York, NY 10020), 1983
208 pages • $17.95 cloth

Reviewed by Tommy W. Rogers

THE key to prosperity in less-developed countries is to utilize the principle of comparative advantage in combination with release of the incentive and creative opportunity presented by the free market. Unfortunately, the social-democratic influence has emphasized taxation and massive government spending coupled with intense bureaucratic intervention for "redistribution" of income and expansion of the public sector. There has been an almost religious commitment to "human capital" investment and "fine tuning." Policies of high taxation and big government have been ruinous for Third World Countries.

Implementation of the welfare ethic in less-developed nations "often has resulted in economic chaos, political violence and eventual military dictatorships." Economic development efforts have too often taken the form of zero-sum redistributionist programs. Preoccupation of a country with income distribution, wherein one group can obtain a larger share of a stale economic pie only at the expense of another group, "is to condemn it to a kind of Tanzanian tango of poverty and repression, redistributing an exceedingly small economic pie for an exceedingly long time to come."

Krauss notes that it is bad enough when economists give out erroneous advice because the theories on which they base their advice is faulty. It is even worse, he states, when erroneous advice results from abuse of scientific authority to impose personal biases on others under the rule of scientific law. Krauss feels that acceptance of the advice of Prof.

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Walter Heller of the University of Minnesota has been particularly detrimental to Third World countries. Heller's 1954 statement that the income distribution pattern of many less-developed countries is "a *compelling* case for redistributive government finance" would be dismissed as pure bunk if the speaker were not wrapped in scientific robes, but many naive persons, Krauss states, accepted Heller's dictum as scientific truth simply because Heller had a strong scientific reputation.

Krauss demonstrates how foreign aid hurts and retards development in less developed nations. With respect to efforts to expand the World Bank, Krauss observes that "the World Bank has become an important vehicle by which the public sector has replaced the private one in much of the Third World. The simple truth is that several international banks . . . want U.S. and other taxpayers to bail them out from their past imprudent investments . . . by bailing out the borrowers from impending bankruptcy through the World Bank."

Development Without Aid is a tremendous statement on the effect of the Welfare State as the enemy of the masses. Big government, as Krauss unequivocally demonstrates with telling comparison and documentation, is destructive of the economy in a multiplicity of ways. The author posits economic development *without* aid as "an essential condition for economic development." Krauss makes a compelling and convincing argument that the international marketplace is a much more potent antidote to poverty in less developed areas than is the international transfer of income.

PRIVATIZING THE PUBLIC SECTOR: HOW TO SHRINK GOVERNMENT
by E. S. Savas
(Chatham House Publishers, Inc., Chatham, N.J. 07928)
164 pages ■ $15.00 cloth

Reviewed by Lawrence W. Reed

"Public choice theory" in economics, as it has developed over the past decade or so, tells us that the public sector — government — possesses many inherent weaknesses as a provider of goods and services. For example, it has a tendency toward bureaucracy; it leans toward the creation of franchised monopolies; and it has little incentive to be efficient. By its very nature the public sector is a poor provider of economic services.

To "privatize" is to turn over to private citizens a task (provision of a good or service) heretofore carried out by some government entity. It means the establishment of creative, non-coercive, profit-seeking,

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marketplace mechanisms in place of the government's power to tax, spend, regulate, confiscate, or monopolize. Privatizing is the peaceful way of dismantling the State brick by brick.

Savas establishes early on that there is an awful lot to dismantle. He identifies and explores in depth three major factors which have contributed to the enormous growth of government: a demand for more government services, by recipients of the services; a desire to supply more government services, by the producers of the services; and, increased inefficiency, which results in the seeming need for more government to do the same job.

Some free market believers may chafe at what appears to be a case for privatization that is less enthusiastic and more roundabout than need be. Savas, for instance, throws an occasional bouquet at that curious halfway method involving government-issued vouchers. Others may want to see less emphasis on the utilitarian (what "works") approach and more emphasis on the philosophical (what advances individual liberty) approach.

In any event, *Privatizing the Public Sector* is a timely and thoughtful contribution to the issue of reducing the scope of government in our overgoverned society. It should be welcomed and studied as a work of considerable value.

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The Stranglehold of "Big Business" ..... Charles Dykes 323

Primitivism: The Thrust of Government Intervention ..... Clarence B. Carson 328

The Academy versus the Market Place ..... John Hospers 339

Unemployment in Puerto Rico ... Hans F. Sennholz 358

Abundance and Scarcity ..... Ben Barker 369

BOOKS:

At the Eye of the Storm ..... John Chamberlain 377

Other Books 380

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